

A Conditional Theory of the 'Political Resource Curse:'
Oil, Autocrats, and Strategic Contexts

by

Anar Kamil Ahmadov

A thesis submitted for the degree of

Doctor of Philosophy

in

Government

in the

DEPARTMENT OF GOVERNMENT

of the

LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

London, United Kingdom

September 2011

Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

The copyright of this thesis rests with the author. Quotation from it is permitted, provided that full acknowledgement is made. This thesis may not be reproduced without my prior written consent.

I warrant that this authorisation does not, to the best of my belief, infringe the rights of any third party.

I declare that my thesis consists of 88,508 words.

Abstract

A burgeoning literature argues that the abundance of oil in developing countries strengthens autocratic rule and erodes democracy. However, extant studies either show the average cross-national correlation between oil and political regime or develop particularistic accounts that do not easily lend themselves to theorizing. Consequently, we know little of the causal mechanisms that potentially link oil wealth to undemocratic outcomes and the conditions that would help explain the ultimate, not average, effect of oil on political regime.

This study develops a conditional theory of the “political resource curse.” It does so by undertaking a statistical reassessment of the relationship between oil wealth and political regime and a nuanced qualitative examination of a set of carefully selected cases in order to contribute to developing an adequate account of causal mechanisms that transmit and conditions that shape the relationship between oil abundance and autocracy. It draws on qualitative and quantitative evidence collected over eighteen months of fieldwork in oil-rich former Soviet countries of Azerbaijan, Kazakhstan, and Turkmenistan, and the ‘counterfactual’ oil-poor Kyrgyzstan. Employing a theoretical framework that draws on insights from the *rentier state* theory, historical institutionalism, and rational choice institutionalism, I trace, compare, and contrast the processes that potentially link oil wealth to regime outcomes in these countries between 1989 and 2010.

The findings strongly suggest that political regime differences can be better explained by the *interaction* of oil wealth with several structural and institutional variables rather than by oil abundance or another single factor alone. A thorough qualitative analysis of the post-Soviet cases shows that the causal mechanisms hypothesized in the ‘resource curse’ literature were neither necessarily present, nor uniform across these cases and throughout the post-Soviet period. This was because a particular interaction of exogenous variables and oil wealth affected the causal mechanisms differently, ultimately entailing different regime outcomes. The spread of alternative political elites, relative size of the ethnic minority with ties to a powerful kin state, and oil production geography were key exogenous factors that consistently interacted with oil in affecting the political regimes.

Acknowledgements

W. Somerset Maugham once likened humans to prisoners, each in their own solitary tower, who try to communicate with the other prisoners through conventional signs that do not have quite the same meaning for the others. From this perspective, doctoral project is a solitary confinement. Or so it seems, until you engage in the rewarding activity of compiling the list of people (“the other prisoners”) who communicated, supported, tolerated, and even understood you along the way. This list can end up being quite long, suggesting that your “confinement” may not have been that solitary after all and that it helped you acquire new meaningful friendships and refine existing ones. This realization doubles the joy of finishing the project.

First and foremost, I owe a particular debt of gratitude to my supervisor Professor Jim Hughes. His unwavering rigour raised the bar on a regular basis; his insights helped to both see the large, complex picture and discern the perspectives of individual actors; and his generosity with his time, energy, resources, and patience was inspiring. Long thought-provoking discussions in his office and short, focused “fire-fighting” e-mail exchanges will be remembered fondly. I thank my advisor Professor Torun Dewan for sharp feedback and for encouraging me to make my theoretical framework as explicit and logically “waterproof” as possible. Other members of the LSE community also helped to hone my research tools and write in a way that is relevant both for the scholarship and for addressing concrete public problems. Criticism, comments, suggestions and other support from Professor Ed Page, Dr Bill Kissane, Dr Vesselin Dimitrov, Dr Rafael Hortala-Vallve and the Political Science and Political Economy (PSPE) group are highly appreciated.

I was fortunate to be able to draw on the expertise and support of a number of scholars outside the LSE before and during this project. Professor Kent Moors is responsible for introducing me to the intricacies of the international oil markets and politics that permeates them. Professor Charles King helped me to embark on my doctorate in the first place and his scholarship provided a model to emulate. Professor James Scott’s insightful advice on seeing my “ideas walk on the ground” proved very helpful in my field research and connecting abstract theory with the way “real people” do things in “real settings.” Professor Michael L. Ross kindly shared his dataset and his thoughts on repression; more importantly, I owe an intellectual debt to his work for influencing my thinking about oil wealth and political regime outcomes. Dr Henry E. Hale provided a stimulating perspective on my project and shared his contacts in Central Asia. My friend and former colleague Dr Hans Gutbrod’s occasional visits to

London supplied me with encouragement and invaluable tips on pursuing a doctoral project. Finally, Dr Gwendolyn Sasse shared her insights on post-Soviet politics and constantly provided kind support and encouragement throughout my last year of PhD.

My research was funded or supported otherwise by the Department of Government at the LSE, Open Society Institute's Global Supplementary Grant Program, University of London Central Research Fund, LSE Financial Support Office, and Economic and Social Research Council.

Many people in Azerbaijan, Kazakhstan, Kyrgyz Republic and Turkmenistan assisted me during my field work. Special thanks go to Nermin Afandiyeva, Ingilab Ahmadov, Nazli Ahmadova, Zardusht Alizade, Sabit Baghirov, Zohrab Ismayil, Khadija Ismayilova, Ismayil Mammadov, Azer Mehtiyev, and Sabina Rustamova in Azerbaijan; Naubet Bisenov, Tolganai Dinzhanova, Adil Nurmakov, and Safkhan Shahmammadli in Kazakhstan; Aijan Abdesova, Baktygul Akkoziyeva, Bakyt Dubashev, Sandro Henschel and David Trilling in Kyrgyzstan; and Maral Meredova in Turkmenistan.

I thank my friends and colleagues at the LSE for numerous constructive deconstruction exercises, disgruntled conversations on methodological divides, and ample encouragement (the latter was quite surprising, given their state as "fellow prisoners" locked in solitary confinements of their bright minds). The list is inspiringly long: Jose Olivas Osuna, Mike Seiferling, Eric Woods, Outi Ruusuvirta, Natalie Beinisch, Stefan Bauchowitz, Ashikur Rahman, Ninfa Fuentes, Ignazio De Ferrari, Ursula Durand-Ochoa, Marianna Escobar Arango, Johannes Wolff, Baldwin Wong, James Wong, Micheal O'keeffe, David Marshall, Max Hanska-Ahy, Fredrik Sjoberg, Matthew Whiting, Lila Caballero-Sosa, Marta Wojciechowska, Daniel Grizer, and others.

Outside the LSE, Gursel Aliyev, Mushfiq Aliyev, Sadig Aliyev, Metin Asgar, Dr Anar Baghirov, Dr Charles Davidson, Sakhya Ghosh, Dr Bill and Maryl Levines, Siraj Mahmudov, Ilyas Nabiyeu, Shekar Panchami, Senan Qambar, and other former students, colleagues and friends were generous with their advice and resources. Particularly thought-provoking, illuminating, and heartening were the e-mail exchanges with my former students and now friends and fellow doctoral researchers Farid Guliyev and Rashad Ibadov, and regular tea ceremonies with my friend Orkhan Sultanov.

Finally, my family has been a constant source of inspiration and support, especially my sister Aynur and my brother-in-law Vugar. My niece Sarah served, enthusiastically and creatively, as my muse.

Oxford, UK
September 2011

Contents

List of Tables	8
List of Figures	9
1 Introduction	11
1.1 Three puzzles.....	12
1.2 Why is this important?.....	14
1.3 Conceptual framework.....	14
1.4 The model in brief.....	13
1.5 Methods	16
1.6 The cases	17
1.7 Thesis outline	18
2 Oil and Democracy: A Meta-Analysis	20
2.1 Introduction.....	20
2.2 Literature review	22
2.3 Methodology of meta-analysis.....	24
2.4 Data	27
2.5 Analysis	28
2.6 Conclusion: beyond average effects and idiosyncrasies	46
3 The Conditional Effect of Oil on Autocracy: A Theory and Its Testing.....	51
3.1 Introduction.....	51
3.2 Theoretical model.....	56
3.3 Predictions and implications	66
3.4 Alternative explanations	68
3.5 Research design	69
3.6 Post-soviet political regimes: theoretical background.....	84
4 Initial Conditions and Coalition Formation	87
4.1 Introduction.....	87
4.2 Theoretical framework.....	87
4.3 Case studies	89
4.4 Similarities and differences in causal mechanisms.....	123
4.5 Conclusion: sources of differences	127

5	Consolidating Power	132
5.1	Introduction.....	132
5.2	Theoretical framework.....	132
5.3	Case studies	135
5.4	Similarities and differences in causal mechanisms.....	161
5.5	Conclusion: sources of differences	169
6	Ordinary and Extraordinary Times	175
6.1	Introduction.....	175
6.2	Theoretical framework.....	175
6.3	Case studies	177
6.4	Similarities and differences in causal mechanisms.....	196
6.5	Conclusion: sources of differences	206
7	Facing Fiscal Crises.....	211
7.1	Introduction.....	211
7.2	Do oil-rich autocracies survive fiscal crises?	213
7.3	The global financial crisis 2007 and Central Eurasia	215
7.4	Policy responses.....	219
7.5	Similarities and differences in causal mechanisms.....	233
7.6	Conclusion	241
8	Conclusion	244
	Appendix.....	252
	References	257

List of Tables

Table 2-1. Sign Test Results	28
Table 2-2. Descriptive Statistics, Oil-Regime Effects, Main	31
Table 2-3. Descriptive Statistics, Oil-Regime Effects, Controls.....	33
Table 2-4. Covariates in the Meta-Regression Analysis of Oil-Regime Effects.....	35
Table 2-5. Meta-Regression Analysis, Oil-Political Regime Effects, All-Set (Dependent variable = partial correlations).....	41
Table 2-6. Studies Included in Meta-Analysis.....	50
Table 3-1. Advantages and Limitations of the Two Research Strategies	70
Table 3-2. Potential Causal Factors	78
Table 3-3. Unified Process Tracing Framework	79
Table 3-4. Potential Causal Factors, detailed	81
Table 4-1. Explanatory Variables, Coalition Formation Stage	88
Table 4-2. Outcome Variables, Coalition Formation Stage	126
Table 5-1. Explanatory Variables, Regime Consolidation Stage	134
Table 5-2. Outcome Variables, Regime Consolidation Stage	163
Table 6-1. Explanatory Variables, Ordinary and Extraordinary Times	175
Table 6-2. Outcome Variables, Ordinary And Extraordinary Times	197
Table 7-1. Policy Responses to the Global Fiscal Crisis.	220
Table 7-2. Pre-Crisis Financial Sector Development	234
Table 7-3. Privatization and Enterprise Reform Progress.....	237
Table 7-4. Repressive Capacity Changes, 2006-2009	241

List of Figures

Figure 2-1. Oil-Regime Effects, All-Set (n=262).....	29
Figure 2-2. Change Over Time, All-Set (n=262).....	29
Figure 2-3. Oil-Regime Effects and Sample Size, All-Set (n=262)	30
Figure 2-4. Oil-Regime Effects and Sample Size, Best-Set (n=30).....	30
Figure 2-5. Galbraith Plot for Heterogeneity, All-Set	38
Figure 3-1. Political System in the <i>Selectorate Theory</i>	57
Figure 3-2. Causal Model.....	69
Figure 3-3. Oil and Democracy in the Former Soviet Union, 1991-2006	74
Figure 4-1. Oil and Gas Rents Per Capita, 1985-1993	128
Figure 4-2. GDP Change in Real Terms, 1989-1993.....	129
Figure 5-1. Taxes in % of GDP, 1994-1999.....	162
Figure 5-2. Taxes as a Fraction of Total Government Spending.....	164
Figure 5-3. Privatisation Revenues (cumulative, in per cent of GDP).....	164
Figure 5-4. General Government Final Consumption Expenditure (% of GDP)	165
Figure 5-5. Government Spending Per Capita, 1993-1999.....	166
Figure 5-6. Public Sector Employment, 1995-1999.....	167
Figure 5-7. Private Sector Share in GDP, 1993-1998	168
Figure 5-8. Repression, 1992-1999.....	169
Figure 5-9. Foreign Aid Per Capita, 1992-1998	170
Figure 5-10. Taxes Per Capita, 1994-2001	171
Figure 6-1. Taxes in % of GDP, 1997-2005	198
Figure 6-2. Taxes as a Fraction of Total Government Spending	199
Figure 6-3. Privatisation Revenues (cumulative, in per cent of GDP)	199
Figure 6-4. General Government Final Consumption Expenditure (% of GDP)	200
Figure 6-5. Government Spending Per Capita, 1998-2006.....	201
Figure 6-6. Public Sector Employment, 1995-2007	202
Figure 6-7. Private Sector Share in GDP, 1996-2005	203
Figure 6-8. Repression, 1997-2007	204
Figure 6-9. Military Spending as % of GDP, 1997-2007	205
Figure 6-10. Military Spending per capita, 1997-2007	205
Figure 6-11. Oil and Gas Rents Per Capita, 1997-2006.....	207

Figure 6-12. Foreign Aid Per Capita, 1997-2005.....	208
Figure 7-1. External Fiscal Shocks and Regime Instability in Oil-Rich Autocracies	211
Figure 7-2. Changes in GDP growth, 2004-2010.....	215
Figure 7-3. Changes in Industrial Production, 2008-2010.....	216
Figure 7-4. The Rise and Drop of Oil and Gas Revenues, 2004-2009	217
Figure 7-5. Oil and Gas Rents Per Capita, 1989-2006	236

1 Introduction

The *political resource curse* literature links the lack of democracy in oil-rich developing countries to just that – their richness in oil. An offspring of the *rentier state* theory, according to which high economic rents from natural resource production allow the state to bypass development and boost its autonomy from the society, its proponents argue that oil wealth sustains autocratic rule and hinders democracy by enabling the incumbent elites to tax less while spending more on patronage, repress dissent more vigorously, and hamper socioeconomic changes that are believed to entail democracy in the long run (Anderson 1987; Beblawi and Luciani 1987; Karl 1997; Ross 2001; Jensen and Wantchekon 2004).

Its critics point out that cross-nationally the relationship is far from clear-cut. Some claim that the negative effect of oil wealth on political regime may be valid for certain countries or some geographic regions, such as the Middle East, while being irrelevant or incorrect for other countries or regions (Herb 2005; Smith and Kraus 2005; Dunning 2008; Haber and Menaldo 2011; 2008; Oskarsson and Ottosen 2009). Some argue that oil wealth has actually contributed to the survival of democracy in Latin America (Dunning 2008). Others suggest the relationship is simply spurious and political regime dynamics is determined by historical factors, not oil (Horiuchi and Waglé 2008). However, other reassessments dispute these findings and reassert that oil does entrench autocracy and impede democracy (Ross 2009; Aslaksen 2010; Ramsay 2010).

This body of research has made important advancements in our understanding of various aspects of political institutions in oil-rich states. Yet, its conundrum leaves us unable of giving an unambiguous answer to the seemingly undemanding question that lies at the core of the contention: is there a relationship between oil and political regime across nations and if there is, is it negative or positive? The research on the political resource curse has largely oscillated between large-N cross-national studies and idiographic single-country accounts, and, useful as they are otherwise, few have provided sufficiently cogent and empirically robust accounts of this relationship. The problem, as I detail in the following chapters, stems from their limitations in developing and testing theories: large-N regressions are marred with specification, data, and estimation issues and are unable to travel far beyond correlations, and case studies put forth mostly atheoretical, impressionistic, and hardly generalizeable narratives. An unequivocal answer, however, as perhaps in many things in life, lies “in the middle” – in *causal mechanisms* that potentially link oil to political regime. Yet, neither approach is a

strong candidate for a *causal* inference (Campbell 1975; Achen 2002; Brady, Collier, and Seawright 2004; George and Bennett 2005; Freedman 2010). As such, they have largely been unable to address three puzzles that emerge from a closer inspection of data.

1.1 Three puzzles

The first puzzle is that, despite affinities, even similar oil-rich developing countries differ in their political regime outcomes. The political resource curse literature predicts that, in developing countries, the larger are the fiscal resources that accrue from their oil wealth, the more autocratic their political regimes are likely to be. A cursory look at the correlations between regime characteristics in these countries and their oil wealth suggests a more ambiguous picture and, specifically, that states with *similar oil riches* can nevertheless have different regime outcomes. This is, of course, because there are factors other than oil that affect political regimes in these countries – and many scholars do “control” for the effects of such variables in their cross-country analyses. Yet, a further look at oil-regime dynamics in cases that are *similar in other critical aspects* (e.g., income, colonial heritage, region, etc.), such as the ones examined in this study, reveals that these cases frequently differ as well, if not in type, then in shades of political regime and its stability. Why is this so?

Second, the oil-democracy scholarship argues that increased oil wealth in developing states is likely to result in reduced taxes, increased public spending, and more vigorous repression (these effects are well-summarized by Ross 2001). If oil wealth sets a dynamic similar across oil-rich cases, then we should expect similar oil-rich states to adopt similar policies. But a careful analysis of World Bank and IMF public finance data (World Bank 2009; IMF 2010) and Cingranelli and Richards (2008) data on repression produces messier, less consistent picture. What explains this variation in taxation, patronage, and repression among oil-rich countries?

Finally, the variation in regime *stability* among oil-rich states also remains a puzzle. While oil-rich authoritarian regimes as a group are significantly more stable in the face of crises than other nondemocratic regimes (Smith 2004; Ulfelder 2007), nonetheless they differ in their post-crises trajectories – a few (e.g., Congo-Brazzaville and Nigeria 1979) broke down and reverted to authoritarianism, some (e.g., Nigeria 1999) liberalized and still some (e.g., Indonesia) achieved moderate levels of democratic consolidation (Smith 2007; Marshall and Jagers 2005; Freedom House 2007). What can account for these differences?

These three puzzles suggest that some important causal factors are omitted and that the relationship among key causal factors might be rather contingent and

interactive than linear and additive. The key premise of this study is that antecedent conditions, such as pre-oil institutions or ethnic diversity, and context factors, such as geopolitical environment, can *interact* with oil wealth in affecting the causal mechanisms and, ultimately, regime outcomes. In order to understand the ultimate effect of oil on political regime, therefore, we need to identify these factors and how they operate in conjunction with oil abundance.

1.2 The model in brief

This study builds on and contributes to recent research that points out the need for developing ‘conditional theories’ of the resource curse in general (Dunning 2005; Tsui 2010; Robinson, Torvik, and Verdier 2006) and the importance of context (Basedau 2008; Hertog 2010). I concur with Dunning (2008) and Ross (2009) who suggest that identifying the conditions, which shape the relationship between oil and political regime, is an urgent step we need to take in order to understand the *political resource curse* better. Like Dunning (2005, 2008), the present study aims to go beyond the generic “context matters” argument and show how it does. It argues that we need to place actors in their *immediate strategic context* that shapes their decision-making and, ultimately, moulds regime outcomes. Thus, it shows how macro-structural forces translate into policy and regime outcomes through shaping the incentives and actions of major actors.

Employing a theoretical framework that draws on insights from the rentier state theory, historical institutionalism, and rational choice institutionalism, the model I develop in Chapter 3 makes three propositions. First, the *relativity* of oil resources to costs of patronage, public goods, and coercion can be as important, if not more important than the absolute size of these resources. The higher are the oil revenues *relative* to costs of patronage, public goods, and coercion, the higher is the likelihood that the leader will retain his autocratic control.

Therefore, and second, a specific combination of the policies to maintain the current regime or strengthen it will depend not only on the resources at the leader’s disposal, but also on structural and institutional factors that define the costs of patronage, coercion, and public goods provision.

Finally, it follows that different combinations of structural and institutional factors, such as the characteristics of challenger groups, are likely to entail different combinations of patronage, coercion, and public goods provision, ultimately affecting political regime outcomes.

1.3 Why is this important?

Currently, about 30 developing countries are dependent on production and export of oil and gas with two new producers in Africa – Ghana and Uganda - coming on stream. In addition, 12 developing countries are dependent on hard minerals, such as copper and diamond (Gelb 2010), which arguably have political effects similar to that of oil. Many among these countries seem to be affected by the “resource curse” in general, which is manifested in three main effects: (a) heavy distortions in the economy, deindustrialization, and poor economic growth outside the resource sector, i.e. the so-called “Dutch Disease”, (b) exacerbated domestic tensions that sometimes lead to civil conflict, and (c) entrenchment of autocratic regimes, i.e., the “political resource curse.”

Most oil-rich developing countries exhibit more than one of these effects as they seem to arrive in “bundles.” Frequently, economic distortions follow from ruling elites’ survival strategies (Bueno de Mesquita et al. 2003; Humphreys and Sandbu 2007) and recent research on the “Dutch Disease” confirms that it has political and institutional foundations (Robinson, Torvik, and Verdier 2006; Mehlum, Moene, and Torvik 2006; Humphreys, Sachs, and Stiglitz 2007; Collier and Goderis 2007). Therefore, understanding the political resource curse becomes even more important. At any rate, departing from overly general theories and excessively descriptive narratives and examining how oil wealth interacts with antecedent conditions in triggering causal mechanisms and producing different regime outcomes is crucial for our understanding of political and economic institutions in these countries and, ultimately, for developing effective solutions to their problems.

1.4 Conceptual framework

Before we embark on the quest for the factors that explain regime dynamics in oil-rich states, it is important to first define the key concepts. The first is the notion of *rentier state*. According to Hossein Mahdavy (1970: 428), *rentier states* are countries that “receive on a regular basis substantial amounts of external economic rent.” Beblawi and Luciani (1987: 51) redefine it to mean a state where “the rents are paid by foreign actors; where they accrue directly to the state; and where a minority is engaged in the generation of this rent (wealth), while the majority is involved in the distribution or utilization of it”. Rents are not derived from production, investment, or management of risk, but rather from utilization of natural resources (Jensen and Wantchekon 2004: 817).

The second important concept is that of *oil wealth*.¹ Given the inelasticity of its demand, oil generates on average more rents than other natural resources (Karl 1997; Cooper 2003). In addition, the oil sector has an “enclave” character: since it is usually geographically concentrated and capital-intensive, not labour-intensive, industry, it has little “spill-over effects” or “linkages” to productive sectors (Hirschman 1977; Shafer 1994). The implications of these two features – excessive rents and “enclave” mode of production – can be profound: oil wealth can make incumbent rulers considerably autonomous, hence less accountable to their societies.

There is a disagreement on whether *oil wealth* or *oil dependence* has implications for political regime, with different studies finding support for one or both variables. In earlier studies, the operational definition of oil abundance – oil exports to GDP ratio – actually measured oil dependence and both its numerator and denominator (GDP) can contain information that biases results (Ross 2008). I pick this issue up in Chapter 2 and show how different measurements can result in drastically different findings. Chapter 3 (subsection 3.5.4) indicates the measurements used in the qualitative part of this study.

The third important concept is that of *political regime*. I use this term in its institutional sense (Schmitter and Karl 1991; Collier and Collier 1991; Whitehead 1994), rather than in its sociological sense (e.g., Mann 1993), which emphasizes specific actors and therefore undervalues the institutional aspects of politics (Munck 2009). The definition I adopt views a political regime as

an ensemble of patterns that determines the methods of access to the principal public offices; the characteristics of the actors admitted to or excluded from such access; and the rules that are followed in the making of publicly binding decisions. To work properly, the ensemble must be institutionalized—that is to say, the various patterns must be habitually known, practiced, and accepted by most, if not all, actors (Schmitter and Karl 1991: 76).

Following Collier and David Collier (1991), I distinguish political regime “from the particular incumbents who occupy state and governmental roles, the political coalition that supports these incumbents, and the public policies they adopt (except of course policies that define or transform the regime itself)” (789). Similarly, my operational definition of regime draws on Polity IV index (Marshall, Gurr, and Jaggers 2010), rather than Gastil index used by Freedom House (2010) as the latter’s measurement includes aspects of the political systems that are not, strictly speaking, necessarily the features of political regime as an institution. Both the Polity IV and the Gastil measures encompass repression as an indicator of political regime; however, I

¹ Following a convention, I refer to oil *and* gas wealth as ‘oil wealth’.

exclude it to conceptually distinguish the means of sustaining regime from the regime itself, thus avoiding endogeneity problems. I pick this issue up in detail in Chapter 3 (section 3.5.4).

1.5 Methods

Much of the recent work on political resource curse essentially shows the average effect of oil wealth on political institutions (Dunning 2008). Useful as it may be, knowing the cross-national average effect of oil on political regime can hardly help us explain the variation among similarly oil-rich countries and inner workings of their political institutions. In addition, the average-effects logic is based on the “all other things being equal” assumption. However, to paraphrase this conventional *ceteris paribus* assumption, *ceteris* are almost never *paribus* in the real world. Consequently, these studies fail in identifying the “ultimate effect” of oil wealth, which is likely to vary in different settings and depend on antecedent conditions and context variables (Dunning 2008; Ross 2009).

Quantitative large-N studies are indispensable for spotting cross-country correlations, but they can be of limited use for causal inference (Campbell 1975; Achen 2002; Brady, Collier, and Seawright 2004; George and Bennett 2005; Freedman 2010). However, the inferential leverage that could be provided by a disciplined qualitative inquiry has not been fully tapped by the scholarship on the effect of oil wealth on democracy either (one of few exceptions is Dunning 2008). Instead, the qualitative studies on the topic are often based on idiosyncratic single country analyses or “convenience samples” and therefore, have limited external validity.

The key to resolving the debate on whether and how oil impedes democracy, I argue, lies through minimizing the sources of bias by isolating study findings from the effect of research design and sampling error in large-N studies, and by advancing clearly-framed, context-sensitive and rigorously-tested *causal* accounts. This is what this study aims to do.

I first employ a set of statistical techniques called meta-analysis and its regression equivalent – meta-regression analysis (MRA) – that help integrate the results of all available quantitative studies on the topic in a meaningful way and examine them after isolating the effects of sampling error and research design. If in the population of countries oil-regime effects have one value or are distributed in some way, then we should be able to approximate that population parameter value or the distribution of values after we isolate the findings of the studies from study artefacts and sampling error.

The larger part of the study is devoted to a nuanced examination of a set of carefully selected cases. Since my goal is to pinpoint structural and institutional variables that interact with oil in affecting the causal mechanisms believed to link oil abundance to political regime and to examine the effect of these causal mechanisms on regime outcomes, a small-N qualitative design that is alert to multicausality, path-dependence and endogeneity appears to be a better choice than the large-N quantitative alternative and conventional comparative method as propounded by Przeworski and Teune (1970) and Lijphart (1971). In other words, the particularities of context and unexplored state of this research terrain render large-N regression modelling as well as essentially correlational small-N less powerful alternatives. Therefore, I employ methodological refinements in qualitative small-N design with their emphasis on explicit theory-guided within-case process-tracing that feed into structured across-case comparisons (Hall 2003; Brady and Collier 2004; George and Bennett 2005).

I draw on qualitative and quantitative evidence collected over eighteen months of fieldwork, including through around a hundred semi-structured in-depth interviews, in oil-rich former Soviet states of Azerbaijan, Kazakhstan, and Turkmenistan, and oil-poor Kyrgyzstan. Employing the theoretical model briefly described above and detailed in Chapter 3, I trace processes that potentially link oil wealth to regime outcomes in these countries between 1989 and 2010.

In order to guide process tracing, I employ elements of the analytic narratives approach (Bates et al. 1998). Like many rational-choice accounts, analytic narratives use formal modelling. Unlike many rational-choice accounts, they analyse actors and their strategic interactions as embedded in their specific historical, social and political settings. In other words, analytic narratives combine an explicit formal model with deep knowledge of the case to account for creation and development of institutions. I rely on such approach by using formal lines of reasoning (much like Levi 1998) to make my theoretical framework explicit and make sense of messy historical and interview data. However, unlike in analytic narratives presented in Bates et al. (1998), the cases examined in this study are not self-selected; instead, my case selection is theory-guided.

1.6 The cases

The dissolution of the Soviet Union and the emergence of its successor states enable one of the most productive inquiries into sources of differences in political institutions: while the union republics were politically and economically homogenous under the soviet regime, they stepped onto independent political and economic trajectories in a matter of one year. Since only after gaining independence the

governments in these countries assumed full control over their economies, including oil sectors, within-case comparisons can be as productive as they are straightforward.

Five of the fifteen republics of the former Soviet Union (FSU) are major oil and gas producers and exporters – Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan. Despite the initial opening of political space that followed the collapse, political regimes in these countries became increasingly autocratic. As such, they represent typical cases of oil-rich autocracies. At the same time, they have differed in their level of autocracy throughout the post-Soviet period. In order to reduce variation in potential major causal factors that can be correlated with autocracy, I exclude the cases that exhibit significantly different values on those variables. The goal is to compare cases that are analytically equivalent². In statistical parlance, this is a strategy to increase unit homogeneity. After applying several case-selection procedures, I choose oil-rich Azerbaijan, Kazakhstan and Turkmenistan and oil-poor Kyrgyzstan, which serves as a ‘counterfactual’ case given its similar initial conditions and post-Soviet context.

1.7 Thesis outline

Chapter 2 offers findings of meta-analysis of the scholarship on political resource curse. It provides a comprehensive qualitative and statistical examination of its findings and integrates them in order find out whether oil has a negative, positive or inconclusive effect on political regime type.

Chapter 3 presents my theoretical model that helps explain the variation in political institutions in oil-rich states of Central Eurasia and possibly beyond. It also details the research design for the qualitative part of the inquiry, including a unified process tracing framework (UPTF), an analytical heuristic introduced in this study. Finally, as a way of sketching the terrain this chapter provides a background on political regimes in former Soviet republics.

Chapters 4 through 7 provide the analysis of the four cases in four analytically different periods of their post-Soviet existence – initial conditions and pre-oil coalition formation, regime consolidation, ordinary times followed by ‘extraordinary’ times (e.g., succession crises), and the periods of exogenous fiscal shocks. Each chapter examines the relationship among oil, antecedent conditions, causal mechanisms, and regime outcomes in the specified period. Each chapter follows the same structure – I first present a theoretical framework that uses formal lines of reasoning to briefly sketch oil-regime dynamics in each case, then provide a detailed examination of each case, followed by a comparative analysis of similarities and differences in causal mechanisms,

² See Brady et al. (2004: 11).

and finally, by the analysis of the likely sources of differences. Chapter 7 is different from the previous ones in that it looks at the change in regime stability, i.e. only one of the two dependent variables; therefore, its structure slightly differs from those of previous chapters.

Finally, Chapter 8 concludes the thesis with a detailed summary of findings, draws this study's theoretical and policy implications, and suggests avenues for further research.

2 Oil and Democracy: A Meta-Analysis

2.1 Introduction

Does oil³ abundance affect political regimes in oil-producing countries? Does it entrench authoritarianism and impede democratization? A growing body of political science literature offers opposing views of the linkage between natural resource wealth, particularly oil, and political regime type. While some argue that oil wealth is harmful for democracy, others contend either that this association is spurious or that it is circumscribed to certain geographic areas or periods of time. In this chapter, I integrate and assess the findings of these studies using the tools of the statistical technique called meta-analysis and arrive at several firm and robust conclusions.

Drawing on the *rentier state* theory, the “resource curse” literature posits that increased oil wealth entrenches autocracy and hinders democracy (Anderson 1987; Beblawi and Luciani 1987; Karl 1997; Ross 2001; Jensen and Wantchekon 2004). According to proponents of this argument, large state revenues from natural resource abundance, particularly oil wealth, in developing countries perpetuates the state’s autonomy from the society, making its political institutions resistant to democratization. Critics point out that cross-nationally the relationship is not as clear-cut as the adherents argue. Some claim that the negative effect of oil wealth on political regime type may be valid in some geographic areas, such as the Middle East and North Africa (MENA – on whose experience the *rentier-state* theory originally flourished), while being incorrect or irrelevant in other areas (Herb 2005; Smith and Kraus 2005; Dunning 2008; Haber and Menaldo 2011; 2008; Oskarsson and Ottosen 2009). In other geographic areas, some suggest, oil wealth has actually contributed to survival of democracy (Dunning 2008). Others argue that the relationship between the two variables can be positive, not negative, cross-nationally (Gurses 2009; Haber and Menaldo 2011). Still others suggest the relationship is simply spurious and political regime dynamics is determined by factors other than oil (Horiuchi and Waglé 2008).

While the earlier interest in this phenomenon was pursued either via individual case studies or comparative small-N studies of predominantly Middle Eastern states during the post-WWII period, data availability and development of appropriate statistical techniques made it possible to explore this issue statistically using large-N cross-national time-series design. Starting with the pioneering work of Barro (1999) and Ross (2001), many quantitative empirical studies of democracy have either included natural resource wealth variables as controls or focused on how natural resource

³ As in other studies, ‘oil’ refers to both oil and gas resources.

abundance may affect political regime type. I identify 30 such studies, which in total report 262 empirical estimates of the relationship between oil wealth and democracy. The estimates range from negative through no-association to positive. While 85 percent of these estimates report a negative and statistically significant coefficient, 15 percent of estimates point out a positive and statistically significant link. The ratio between statistically insignificant findings is similar: 75 percent of estimates have a negative sign and 25 percent a positive sign. However, although the percentage of negative findings is significantly larger than positive, the latter cannot be ignored.

How do we solve this problem in such a way that would enable us to say whether oil wealth indeed has anti-democratic features across space and time? There are two options to consider. The first one is to conduct a reassessment of the topic through a new large-N study, equipped with much better data, better specification, and better estimation techniques. Although this is an attractive option, it is not immune to the issues and biases that pervade other studies. In other words, this option can add to, rather than dispel, confusion due to subjective biases, data limitations, and theoretical and methodological preferences. The second option is to integrate the results of all available studies in a meaningful way and examine them after isolating the effects of sampling error and research design. If in the population of countries oil-regime effects have one value or are distributed in some way, then we should be able to approximate that population parameter value or the distribution of values after we isolate the findings of the studies from study artifacts and sampling error. This is possible through a set of statistical techniques called meta-analysis and its regression equivalent – meta-regression analysis (MRA). This chapter offers the findings of such meta-analysis of oil-regime effects.

Meta-analysis is a widespread approach in medicine, psychology, and several other fields. While it is relatively new to economics and political science, certain, albeit often limited, applications of this method in political science and political economy are gaining popularity (Lau et al. 1999; D'Alessio and Allen 2000; Bishop and Smith 2001; Imbeau, Pétry, and Lamari 2001; Nijkamp and Poot 2004; Roscoe and Jenkins 2005; Doucouliagos and Ulubasoglu 2006; Doucouliagos and Ulubaşoğlu 2008).

Once the tools of meta-analysis are applied to oil-regime estimates collected across all publicly available quantitative studies on the topic, the inductive findings show that, cross-nationally, the association between oil and democracy is not inconclusive – it is negative, although small, confirming the *rentier-state* argument. However, regional differences, particularly the “Latin American exceptionalism”, are also

evident. Most important, I demonstrate that the study results are significantly affected by measurement, data, estimation, and specification decisions.

The next section offers a brief review of the literature on the relationship between oil and political regime type. In the third section, I provide a snapshot of the methodology of meta-analysis and meta-regression analysis. The fourth section describes the data used in this study and how it was collected and organized. The fifth section provides findings of a detailed meta-analytic examination of the topic. The sixth section details what we know about the link between oil wealth and democracy, what we don't, and the likely reasons why we don't. It points out the many things we still need to learn in order both to solve the theoretical conundrum and to be able to offer tangible practical solutions.

2.2 Literature review

A growing body of literature links the lack of democracy in oil-rich countries to abundance in oil (Anderson 1987; Beblawi and Luciani 1987; Karl 1997; Ross 2001; Jensen and Wantchekon 2004). This argument springs from the *rentier state* theory, which maintains that disproportionately high economic rents from natural resource production lead to adverse political, economic and social outcomes.

According to Hossein Mahdavy (1970: 428), *rentier states* are countries that “receive on a regular basis substantial amounts of external economic rent.” Beblawi and Luciani (1987: 51) redefine the *rentier state* as one where “the rents are paid by foreign actors; where they accrue directly to the state; and where a minority is engaged in the generation of this rent (wealth), while the majority is involved in the distribution or utilization of it”. Rents are not derived from production, investment, or management of risk, but rather from utilization of natural resources (Jensen and Wantchekon 2004: 817). Moreover, the oil sector has an “enclave” character: since it is a geographically concentrated and capital-intensive, not labour-intensive, industry, it does not have “spill-over effects” or “linkages” to productive sectors (Hirschman 1977; Shafer 1994). This “enclave” mode of production and high rents makes oil-rich incumbent rulers more autonomous, hence less accountable to their societies.

The revenues procured from external sources, apart from enriching and strengthening the ruling elite, have several effects well-summarized by Ross (2001). Drawing on the literature on the important role played by taxation in the emergence of representative institutions (Tilly and Ardant 1975; Bates and Lien 1985), some studies argue that oil rents relieve the governments from the need to levy taxes, thereby weakening the crucial link between the state and society (Skocpol 1982; Anderson 1987;

Beblawi and Luciani 1987). They can also be partly distributed to the population as a form of social and political control through large public projects and selective spending to preclude the formation of autonomous social groups (Moore 1976; First 1980; Shambayati 1994; Entelis 1995; Crystal 1995; Vandewalle 1998). In addition, resource abundance can allow governments to maintain and enhance internal security that effectively suppresses dissent and attenuates potential domestic challengers (Skocpol 1982; Gause 1995; Bellin 2004).

Using time-series cross-national data from 113 states between 1971 and 1997 to test the findings of several single and comparative case studies, Ross (2001) finds strong support to the argument that oil impedes democracy through these channels. He also finds partial support to what he calls a “modernization effect”, which takes place when “growth based on the export of oil and minerals fails to bring about the social and cultural changes that tend to produce democratic government” (327-8). Ross (2001) finds empirical support for the argument that oil exporters are on average more authoritarian than mineral exporters. Since oil enjoys more inelastic demand and its extraction requires a relatively small labour input than agriculture and coal, copper, or diamonds mining, the effect of oil rents can be more profound than that of mineral rents.

Early literature on the political resource curse conflated two issues that later came to be seen as distinct: survival of authoritarianism and survival of democracy (Ross 2009). Jensen and Wantchekon (2004) argue that regardless of the regime type, resource wealth will make the regime in the owner country more authoritarian due to incumbency advantage and executive discretion over allocating resource rents. Ulfelder (2007), on the other hand, separates the two issues and finds strong support for the first argument, i.e. that oil wealth helps autocracies survive. In a refinement of the previous argument, Ross (2009) also finds that oil wealth impedes democratic transitions in autocracies. However, this reassessment finds support only to one of the three causal mechanisms tested by Ross (2001) – the “*rentier effect*”, while failing to find empirical support to the “*repression effect*” and “*modernization effect*”.

A number of large-N cross-national studies challenge the oil-hinders-democracy argument positing an inconclusive relationship between oil wealth and political regime. Some argue that natural resource abundance in general and oil wealth in particular is not consistently associated with less democracy *cross-nationally* – it may have both negative and positive effects in different environments, but this effect cannot be generalized across space and time (Herb 2005; Smith and Kraus 2005; Dunning 2008; Haber and Menaldo 2011; 2008; Oskarsson and Ottosen 2009). Dunning (2008)

demonstrates that in Latin America oil wealth did not only not impede democracy, but also helped to sustain it. Other studies suggest oil wealth might have a positive, rather than negative effect on political regime cross-nationally (Gurses 2009). Still others suggest variation in democracy is due to other factors and heterogeneity of country experiences, rather than oil wealth (Horiuchi and Waglé 2008).

What do we conclude from these conflicting results? How to find out which claim is more valid? One way is to undertake another reassessment using either the same or a new set of data, specification and estimation techniques – and probably add to the confusion. Another way is to conduct a meta-analysis.

2.3 Methodology of meta-analysis

To help resolve this debate, I conduct a meta-analysis of studies that offer empirical estimates of the relationship between oil wealth and political regime. Meta-analysis is a set of statistical techniques that allow summarizing research findings, evaluating between-study differences, and explaining these differences rigorously and systematically. Meta-regression analysis (MRA) explicitly estimates the effects of study characteristics on study outcomes. It enables to not only summarize, but also *integrate* findings from different studies in a meaningful way by isolating study results from study artefacts (e.g., between-study data, specification, and estimation differences). As such, MRA goes far beyond conventional literature reviews, which often suffer from “methodological selection biases” that lead to selective accumulation of knowledge (Stanley 2001).

2.3.1 Identifying empirical effects

Studies on a given topic report positive and negative results that are either statistically significant or non-significant at a specified level of significance. “Vote count” methods – whether there are more positive and statistically significant estimates than negative or vice versa – although appealing, can be misleading as they ignore a lot of useful information and do not allow summarizing the studies (Hunter and Schmidt 2004). Provided that each study included in the meta-analysis has passed some “quality check”, conducting a sign test of positive versus negative findings can be useful, however. I conduct such test using the formula

$$Z_{vc} = \frac{N_p - 1/2N}{1/2\sqrt{N}} \quad (2.1)$$

where

- Z_{vc} is the standard normal deviate, or z score, for the overall series of findings;
- N_p is the number of positive findings; and
- N is the total number of findings.

Next, I summarize all empirical estimates to answer two important questions. First, is there a genuine association between oil wealth and political regime? Second, is this association inconclusive? To find answers to these questions, all empirical estimates across studies first need to be converted into standardized measures comparable across studies. I convert each empirical estimate of the effect size into a partial correlation using the formula

$$\varepsilon = \sqrt{\frac{t^2}{t^2 + df}} \quad (2.2)$$

where, for each estimate i ,

- ε is the partial correlation between oil and political regime
- t is the t-statistic
- df is degrees of freedom.

The resulting partial correlations run from -1 to 1.

Once partial correlations are derived, we can calculate a cumulative cross-study estimate of the relationship under study, i.e. mean partial correlations, using different weights. The resulting measure is the best estimate of the extant empirical literature on the effect of oil abundance on political regime. I use the following formula for deriving mean partial correlation(s):

$$\bar{\varepsilon} = \frac{\sum [N_{ij}\varepsilon_{ij}]}{\sum N_{ij}} \quad (2.3)$$

where

- $\bar{\varepsilon}$ is the mean oil-regime effect
- ε_{ij} is the standardized effect from the i^{th} regression estimate of the j^{th} study
- N is the associated weight.

It is conventional in meta-analysis to regard the effect small if the absolute value of $\bar{\varepsilon}$ is less than 0.10, medium if it is 0.25, and large if it is greater than 0.40 (Doucouliaog and Ulubaşoglu 2008).

Once $\bar{\varepsilon}$ is calculated, I construct 95 percent confidence intervals in order to evaluate the accuracy of the mean partial correlation. The confidence intervals are constructed using fixed-effect model, random-effects model, and applying three weights: the sample size, the weighted number of citations of the study, and the impact score of the journal where the study was published. In addition, I construct credibility intervals, a Bayesian alternative to confidence intervals. Credibility intervals are more conservative than confidence intervals and unlike the latter assume the *distribution* of population parameter values rather than a single parameter. I follow Hunter and Schmidt (2004) and construct credibility intervals by subtracting expected sampling error from the observed variance in the findings – the remaining variance can be regarded as due to factors other than sampling error.

2.3.2 Exploring the heterogeneity in reported results

Once partial correlations are calculated and summarized, it is possible to explore the heterogeneity in reported results. Specifically, why do studies report seemingly divergent results? Is the observed heterogeneity of findings a feature of an underlying distribution of oil-regime population parameter values or the result of study artefacts? A meta-regression analysis (MRA) allows answering these questions. I estimate several versions of the following basic model:

$$\varepsilon_i = \gamma_0 + \gamma_m D_i + \beta_n S_n + \delta_k R_k + \varphi_l T_l + \rho_t X_t + u_i + e_i \quad (2.4)$$

where

- ε_i denotes the partial correlation between oil wealth and political regime given by regression i ,
- D is a vector of data characteristics used in the regression i ,
- S is a vector of variables representing specification differences (i.e., whether a particular variable is used in the regression or not),
- R is a vector of regional dummies (i.e., specific regions of the world that the sample of the regression utilizes),
- T is a vector of time dummies (i.e., decades that the regression's sample utilizes),
- X is a vector of estimation characteristics (i.e. which estimation technique is used),
- u_i is the disturbance term,
- e_i is the error term.

MRA can estimate two types of statistical models: random-effects and fixed-effect models. *Random-effects MRA* (RE) is based on the assumption that in addition to sampling error, some of the variation in ε_i is due to unidentifiable *random* differences (Equation 4). *Fixed-effect MRA* (FE), on the contrary, is based on the assumption that the variation in ε_i can be explained by sampling error and *systematic* differences between studies. Contrary to what some scholars suggest, estimating both models might be misleading; instead, the choice of a model should be strictly guided by not only whether the whole population or a sample of studies is used but other study characteristics. I estimate exclusively random-effect models for the reasons described in the analysis section.

2.4 Data

To conduct meta-analysis of the relationship between oil wealth and political regime, I pull together all publicly available studies on the topic. A comprehensive search using ISI Web of Knowledge, Google Scholar and ProQuest dissertation and theses database identifies a total of 120 publicly available studies of the effect of oil abundance on political regime. Then the task is to select those studies that can be meaningfully analyzed using the tools of meta-analysis and meta-regression models.

I include in the meta-analysis those studies that are peer-reviewed articles, working papers, books, and theses; employ statistical/econometric analysis; employ Polity, Gastil or dichotomous/ trichotomous regime variable as the dependent variable; and report all necessary results, such as coefficients, significance test results, standard errors, etc. Although some scholars suggest dropping working papers from the analysis as they may not report final results and may not have gone through a peer review, I include such studies to explicitly counter a possible publication bias. Also, unless a study displays an evident design or reporting problem, I do not discard it based on an *a priori* judgment of its quality. Instead, following Glass et al. (1981), I treat “the impact of study quality on findings [as] an empirical *a posteriori* question, not an *a priori* matter of opinion” (22). I exclude findings from qualitative studies since such findings cannot be included in statistical meta-analysis; besides, most of the qualitative studies on the topic are largely idiographic single case studies. Thus, I derive 262 estimates from 30 quantitative studies, including 19 journal articles, two books, one doctoral thesis, and eight working papers.

The following step is to construct a dataset that records characteristics of each study and each estimate. I code around 90 characteristics for each estimate that capture country composition in the sample used to derive the estimate, data differences,

estimation differences, and specification differences. The resulting dataset can be treated as three datasets: all-set (n=262) – all regression estimates, best-set (n=30) – one favoured estimate per study, and extended best-set (n=73) – all favoured estimates from each study.

2.5 Analysis

2.5.1 Sign test

Table 2-1 reports the results of the sign test. Both in the all-set and best-set, one direction – negative effect - occurs more frequently than chance would suggest. In other words, the probability is minuscule that this many findings would be in one direction if the null hypothesis were true.

The probability is tiny that this many findings would be in one direction if the null hypothesis is true – that is, if no relationship exists between the variables in the sampled population.

Table 2-1. Sign Test Results

	All Findings	Significant Findings
All-Set Z_{vc} (n=262)	-10.63***	-10.13***
Best-Set Z_{vc} (n=30)	-3.29***	-3.00***
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$		

Figure 2-1 shows the distribution of partial correlations of oil-regime effects. Estimates seem to converge towards one underlying population effect below zero, which can be regarded an unbiased estimate. The symmetry of the histogram also suggests that the observed distribution of findings is representative.

Figure 2-1. Oil-Regime Effects, All-Set (n=262)

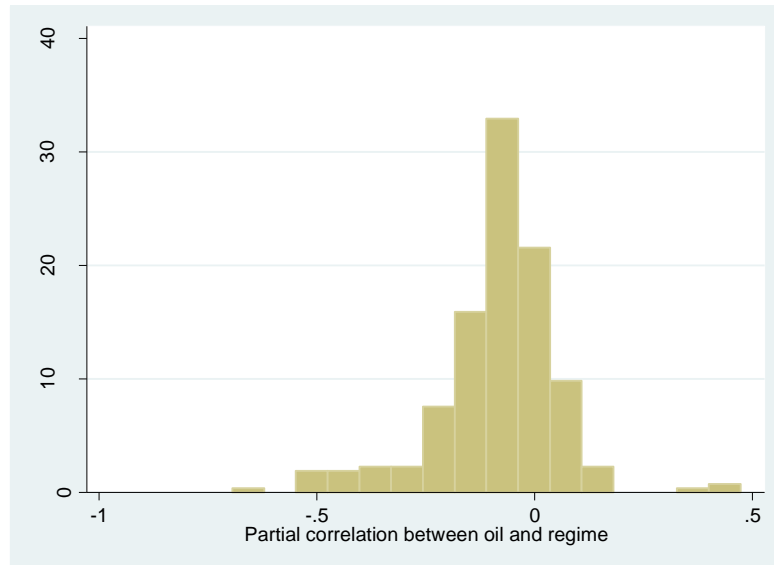
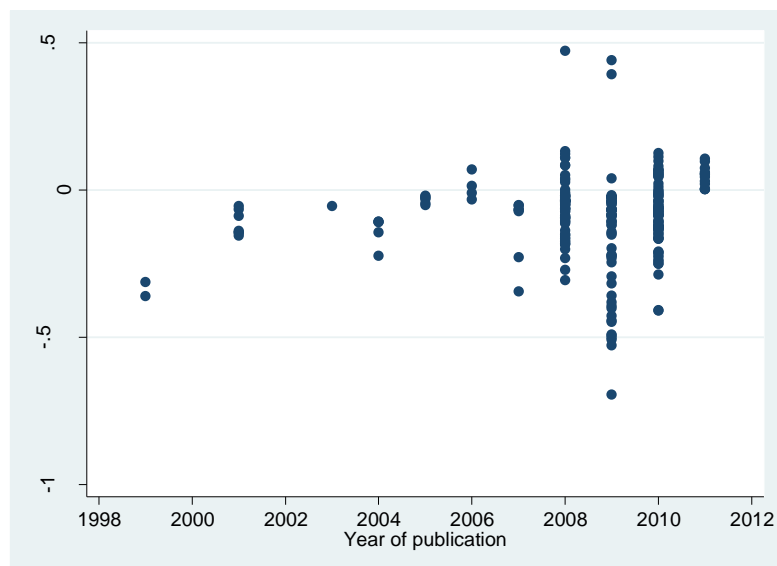


Figure 2-2 displays historical change in oil-regime effect estimates. As suggested by the plot, whereas early estimates were mostly negative, reassessments of the relationship brought more uncertainty and wider distribution of results. Still, the results are mostly clustered below zero.

Figure 2-2. Change Over Time, All-Set (n=262)



Does the size of the sample used to derive an estimate affect its magnitude? Figure 2-3 and Figure 2-4 suggest it does both in the all-set and best-set: studies with larger samples seem to offer, as expected, less variation in the distribution of estimates between -1 and 1. Studies with smaller number of observations, on the other hand, display wider variation. Figure 2-3 also displays fitted values from a quadratic equation.

They show that, until a certain threshold, the larger is the sample size of the estimate, the less negative is the estimate to zero. However, past the threshold of 3000 observations, the fitted-values line gradually falls and confidence intervals get wider, indicating less precision in estimates.

Figure 2-3. Oil-Regime Effects and Sample Size, All-Set (n=262)

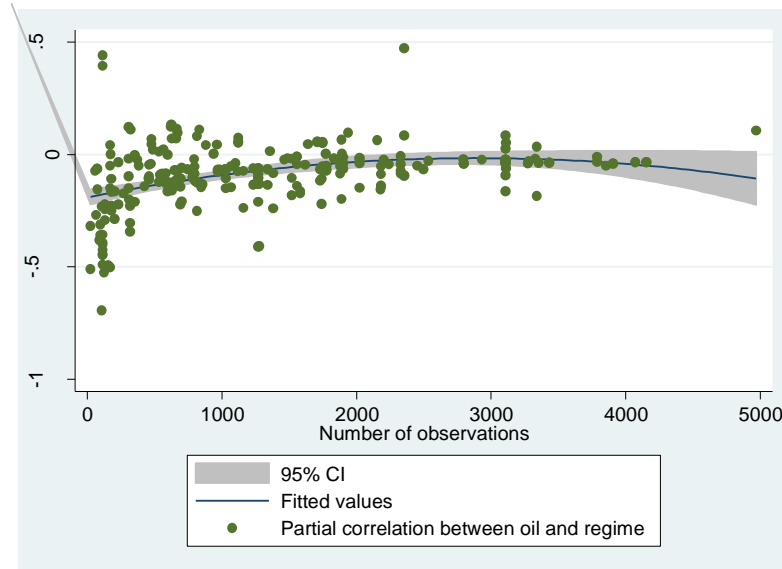
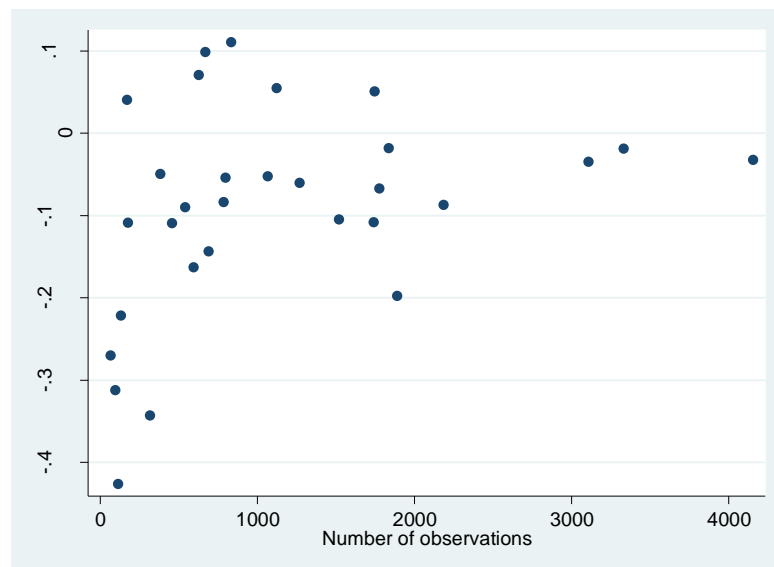


Figure 2-4. Oil-Regime Effects and Sample Size, Best-Set (n=30)



2.5.2 Mean oil-political regime effects

Table 2-2 presents summary statistics of oil-regime effects, reporting medians, unweighted and weighted means, confidence intervals and credibility intervals. These statistics are reported for the all-set, best-set, all-set excluding top and bottom 10 percent of estimates, and extended best-set. The averages and confidence intervals are

weighted by the sample size, weighted citations of the study, impact score of the journal where the study was published, fixed-effect model, and random-effects model.

Table 2-2. Descriptive Statistics, Oil-Regime Effects, Main

Statistic	Oil-Regime (All-Set) (1)	Oil-Regime (Best-Set) (2)	All-Set, Excluding Top and Bottom 10% (3)	Oil-Regime (Best-Set Extnded) (4)
Number of studies	30	30	23	30
Number of estimates	262	30	210	73
Total sample size	367,549	34,171	327,042	90,292
Median	-0.07	-0.08	-0.07	-0.07
Unweighted Average	-0.09	-0.09	-0.08	-0.08
Weighted Average (N)	-0.05	-0.05	-0.06	-0.05
Weighted Average (Q ₁)*	-0.09	-0.09	-0.08	-0.09
Weighted Average (Q ₂)*	-0.08	-0.12	-0.07	-0.10
Weighted Average (FE)	0.11	-0.16 ^a	-0.04	-0.07
Weighted Average (RE)	-0.10	-0.12	-0.08	-0.10
95% Confidence Interval (N)	-0.06 to -0.04	-0.08 to -0.02	-0.07 to -0.05	-0.07 to -0.03
95% Confidence Interval (Q ₁)*	-0.11 to -0.06	-0.16 to -0.03	-0.10 to -0.07	-0.12 to -0.05
95% Confidence Interval (Q ₂)*	-0.11 to -0.05	-0.22 to -0.03	-0.09 to -0.06	-0.14 to -0.05
95% Confidence Interval (FE)	0.11 to 0.11	-0.16 to -0.16	-0.04 to -0.04	-0.07 to -0.07
95% Confidence Interval (RE)	-0.14 to -0.06	-0.16 to -0.08	-0.09 to -0.08	-0.13 to -0.08
95% Credibility Interval	-0.14 to -0.04	-0.15 to -0.03	-0.13 to -0.03	-0.13 to -0.02

N = weighted by the sample size; Q₁ = weighted by weighted citations; Q₂ = weighted by journal impact score; FE = fixed effects; RE = random effects; * reduced number of observations; ^a based on 17 observations.

All means, except for one instance of a fixed-effect model for All-Set, indicate a negative association between oil wealth and political regime. In other words, summing up available empirical evidence, there is a negative effect of oil wealth on political regime – the more oil, the less democracy. This effect, however, is small – it varies around -0.09. Confidence and credibility intervals confirm this small, negative partial correlation between oil wealth and political regime across the entire literature.

Confidence intervals and credibility intervals also rule out the possibility of a positive and no association. That is, summing up the entire extant literature on the topic, the association between oil and political regime is not inconclusive. The results do not change significantly when moving away from All-Set or applying weights, except in one instance when fixed-effect model is applied; however, this result should be treated with caution as the fixed-effect model, as discussed below, may be not adequate given the observed heterogeneity. Nor excluding top and bottom 10% smallest and largest estimates changes the results.

Table 2-3 repeats the same analysis after controlling for the effect of several variables hypothesized as key determinants of political regime. Columns 1 through 3 report summary statistics for those groups of estimates that were derived after controlling for the effect of three variables hypothesized in the literature as the most robust determinants of democracy – regional effects, income, and previous political regime (lagged regime). Column 4 considers those estimates that were derived after controlling for the effect of all three variables simultaneously. The results do not change much.

The results show an inconclusive relationship when considering only those estimates that were derived after controlling for the effect of inequality and when the oil variable was considered endogenous. Inequality is suggested by Dunning (2008) as a critical variable determining whether oil wealth will lead to autocratic or democratic outcomes. Ramsay (2006) and Haber and Menaldo (2011) suggest that treating oil as endogenous to political regime can change results. The summary statistics for those cases reported in Columns 5 and 6 show one positive weighted average for a fixed-effect model and almost all confidence and credibility intervals are inclusive of zero, indicating inconclusive results. However, the results in Columns 4 through 6 are based on a small number of regression estimates.

Table 2-3. Descriptive Statistics, Oil-Regime Effects, Controls

Statistic	All-Set, Regional Controls (1)	All-Set, Income Controls (2)	All-Set, LagReg Controls (3)	All-Set, Regional, Income and LagReg Controls (4)	All-Set, Inequality Controls (5)	All-Set, Oil Endogenous (6)
Number of studies	11	28	23	8	5	2
Number of estimates	39	225	138	22	30	27
Total sample size	56,481	315,320	198,533	28,375	56,891	45,937
Median	-0.10	-0.07	-0.06	-0.09	-0.07	-0.06
Unweighted Average	-0.10	-0.09	-0.07	-0.10	-0.04	-0.03
Weighted Average (N)	-0.08	-0.05	-0.05	-0.07	-0.04	-0.01
Weighted Average (Q ₁)*	-0.08	-0.09	-0.09	-0.08	-0.02	-0.02
Weighted Average (Q ₂)*	-0.10	-0.08	-0.07	-0.11 ^a	-0.02 ^b	0.05 ^b
Weighted Average (FE)	-0.09	0.12	-0.10	-0.09	0.45	-0.08
Weighted Average (RE)	-0.10	-0.11	-0.09	-0.10	-0.03	-0.08
95% Confidence Interval (U)	-0.12 to -0.08	-0.11 to -0.07 to	-0.09 to -0.05	-0.13 to -0.07	-0.09 to 0.01	-0.06 to 0.00
95% Confidence Interval (N)	-0.10 to -0.05	-0.06 to -0.03	-0.06 to -0.03	-0.09 to -0.04	-0.09 to 0.02	-0.05 to 0.03
95% Confidence Interval (Q ₁)*	-0.09 to -0.06	-0.12 to -0.06	-0.11 to -0.06	-0.10 to -0.06	-0.09 to 0.06	-0.05 to 0.02
95% Confidence Interval (Q ₂)*	-0.13 to -0.07	-0.12 to -0.05	-0.11 to -0.04	-0.14 to -0.07	-0.10 to 0.05	0.02 to 0.07
95% Confidence Interval (FE)	-0.09 to -0.08	0.12 to 0.12	-0.10 to -0.10	-0.09 to -0.08	0.45 to 0.45	-0.12 to -0.03
95% Confidence Interval (RE)	-0.12 to -0.08	-0.15 to -0.07	-0.11 to -0.08	-0.12 to -0.08	-0.14 to 0.08	-0.12 to -0.03
95% Credibility Interval	-0.15 to -0.05	-0.14 to -0.04	-0.12 to -0.02	-0.15 to -0.05	-0.09 to 0.01	-0.08 to 0.02

N = weighted by the sample size; Q₁ = weighted by weighted citations; Q₂ = weighted by journal impact score; FE = fixed effects; RE = random effects; * reduced number of observations; ^a based on 15 observations; ^b based on 8 observations.

2.5.1 Heterogeneity

I now turn to exploring the heterogeneity in findings. The key question is, if integrating extant studies points at the negative, however small, relationship between oil wealth and political regime, why is the literature reporting heterogeneous findings? The differences in results can be due to real-world factors or the research process. Real-world factors are regional specificities, time periods, or country idiosyncrasies. The differences in the research process may stem from different researcher's human capital, the data they use, and the technology they choose to apply to analyze the data, such as model specification, estimation techniques, and common knowledge. MRA takes proxies for these inputs and examines their effect on the effect size (Doucouliagos and Ulubaşoğlu 2008).

2.5.1.1 Moderator variables

Table 2-4 lists covariates used in the meta-regression analysis of oil-regime effects. They are grouped into six categories: region composition in the sample, data differences, knowledge effects, estimation differences, specification differences, and others. Each moderator is selected because of its hypothesized effect on study findings; thus, despite a relatively large number of variables, I avoid data mining.

Since country composition in the samples used by researchers of oil-regime effects is unreported, I use regional composition of the samples by coding dichotomous variables for each region. These regions include Middle East and North Africa, Sub-Saharan and South Africa, and Latin America. The task is to explore whether the inclusion of any region affects the research results as suggested by several scholars (Ross 2001; Herb 2005; Dunning 2008; Haber and Menaldo 2011). Other regions are captured by one dichotomous variable⁴.

Data differences are captured by three groups of variables. First, some studies suggest that extending the temporal scope of the analysis may have a significant effect on the results (Haber and Menaldo 2011). To examine the validity of this claim, I include a log of the number of observations, which on average captures both the temporal and spatial scope of the sample used. Second, dummies are included for each time period used in the studies of the relationship between oil wealth and political regime. Third, since different measures of key variables might have a significant effect on study results, the differences in measurement of independent and dependent variables between studies are captured by dummy variables indicating which measurement was used by

⁴ Separate variables are coded for Eastern Europe and Former Soviet Union, East and South Asia, and Western Europe, US, and Canada. Regression results that evaluate the role of each of these regional dummies is available from the author.

each study. The importance of examining the effect of measurement on study outcomes is underlined by the ongoing debate on the most valid measure of oil wealth and whether oil wealth or oil dependence should be treated as the key explanatory variable (Ross 2008; Ross 2009; Dunning 2008). Similarly, the result may be affected by which measure of political regime is used. Therefore, I include in the MRA three dummy variables for each measure of political regime used in the literature – Polity IV, Gastil (i.e., Freedom House), or dichotomous or trichotomous regime measure. I report several regression results in which a different measure was treated as a base.

Knowledge effects are captured by two variables. First, as study results may be affected by feedback from other students of the political economy of oil, I include a dummy variable which takes the value of 1 if the author declares receiving feedback from other scholars studying the same topic. Second, the author's previous research may have an effect on the results and a separate dummy variable captures whether this has an effect on study results.

Estimation differences are captured by three variables. The first is whether the estimate was arrived through a non-OLS regression. The second is whether country-fixed effects were used. The third is whether oil was treated as endogenous.

Specification differences include all important variables hypothesized to either have an independent effect on political regime, such as income, socio-cultural region, and previous regime type. Others include possible causal mechanisms between oil wealth and political regime, such as education and urbanization – two variables used to measure modernization.

Finally, I control for other factors, such as whether the field of the journal where the study was published is a political science journal and whether the focus of the study is the relationship between oil abundance and political regime.

Table 2-4. Covariates in the Meta-Regression Analysis of Oil-Regime Effects

Variable	Description	Mean All- Set	S.D. All- Set	Mean Best- Set	S.D. Best- Set
<i>r</i>	Partial correlation between oil and regime	-0.09	0.14	-0.09	0.13
	<i>Region composition in the sample</i>				
<i>lamerica</i>	Latin American countries included in the sample	0.90	0.29	0.93	0.25
<i>ssafrica</i>	sub-Saharan Africa included in the sample	0.96	0.19	0.93	0.25
<i>mideastna</i>	MidEast/North Africa included in the sample	0.95	0.21	0.93	0.25

	sample				
<i>otherreg</i>	Other regions	0.95	0.21	0.90	0.31
	<i>Data differences</i>				
<i>logn</i>	Number of observations (log)	6.34	1.18	6.10	1.18
<i>usedpre1960</i>	data from pre-1960s used	0.06	0.25	0.10	0.31
<i>used1960_70s</i>	data from 1960s and 1970s used	0.87	0.34	0.87	0.35
<i>used1980_90s</i>	data from 1980s and 1990s used	0.90	0.30	0.90	0.31
<i>used2000s</i>	data from 2000s used	0.62	0.49	0.53	0.51
<i>oilexpgdp</i>	Oil exports/GDP measure used	0.23	0.42	0.23	0.43
<i>oilexpexp</i>	Oil exports/exports measure used	0.09	0.28	0.13	0.35
<i>oilrpc</i>	Oil per capita measure used	0.40	0.49	0.20	0.41
<i>oilcdummy</i>	Oil country dummy measure used	0.13	0.34	0.23	0.43
<i>natres</i>	Natural resource measure used	0.11	0.31	0.17	0.38
<i>polity</i>	Polity measure used	0.58	0.49	0.50	0.51
<i>gastil</i>	Gastil measure used	0.23	0.42	0.23	0.43
<i>dumtrich</i>	Dichotomous or trichotomous measure of democracy used	0.19	0.39	0.27	0.45
	<i>Knowledge effects</i>				
<i>epistemic</i>	Author declares receiving feedback from authors who have published on oil-democracy effects	0.44	0.50	0.30	0.47
<i>prior</i>	Author has published previously in this area	0.29	0.45	0.27	0.45
	<i>Estimation differences</i>				
<i>nools</i>	Did not use OLS	0.41	0.49	0.50	0.51
<i>cfeffects</i>	Country fixed effects	0.24	0.43	0.23	0.43
<i>oilendo</i>	Oil is endogenous	0.10	0.30	0.07	0.25
	<i>Specification differences</i>				
<i>period</i>	Period dummies included	0.25	0.43	0.23	0.43
<i>regional</i>	Regional dummies used	0.15	0.36	0.27	0.45
<i>colonial</i>	Colonial dummies used	0.09	0.29	0.17	0.38
<i>lagreg</i>	Lagged dependent variable included	0.53	0.50	0.60	0.50
<i>income</i>	GDP per capita variable included	0.86	0.35	0.80	0.41
<i>minerals</i>	Non-fuel minerals variable included	0.10	0.29	0.10	0.31
<i>aid</i>	Foreign aid variable included	0.09	0.28	0.13	0.35
<i>islam</i>	Islam variable included	0.39	0.49	0.37	0.49
<i>inequality</i>	Inequality variable included	0.11	0.32	0.13	0.35
<i>ethnic</i>	Ethnic fractionalization variable included	0.15	0.36	0.17	0.38
<i>educ</i>	Education variable included	0.16	0.37	0.23	0.43
<i>urban</i>	Urbanization variable included	0.08	0.28	0.13	0.35
<i>communist</i>	(Post-)Communist variable included	0.04	0.20	0.13	0.35
	<i>Other</i>				
<i>polisci</i>	Published in a political science journal	0.31	0.46	0.37	0.49
<i>oilfocus</i>	If oil is the primary issue of interest	0.70	0.46	0.53	0.51

2.5.2 Estimation models and methods

Since many studies report several estimates, the estimates grouped in the All-Set are not statistically independent since within-study estimates are likely to be strongly correlated. One of the solutions to this problem is provided by Doucouliagos (2005) and Doucouliagos and Ulubaşoğlu (2008) who suggest using the bootstrap method for statistical dependence problem. A more natural solution, however, would be to treat the dataset as either a multilevel structure or a panel, and group the estimates accordingly. Each primary study would then be treated as a hierarchy or a panel. Multilevel regression is flexible as it allows both the slopes and the intercept to vary randomly across groups (Nelson and Kennedy 2009). It relaxes the assumption of independence between estimates and allows treating the data as natural hierarchies (Goldstein 2010; Bateman and Jones 2003). Similarly, although panels are inherently heteroskedastic as the primary data form an unbalanced panel and random-effects model for panel data would closely approximate the multilevel model's results, panel-data modeling can be indispensable in examining the correlation problem due to its emphasis on testing for correlation between the heterogeneity and moderator variables (Nelson and Kennedy 2009). Therefore, I use both multilevel regression and panel-data modeling.⁵

There are two kinds of models in MRA: fixed-effect model (FE) and random-effects (RE) model. The FE (common-effect) model would assume that there is only one true oil-democracy effect size across all the studies pulled together in a meta-analysis, therefore the differences in observed effects are interpreted as stemming solely from sampling error, not real-world differences. The RE model, on the other hand, allows the true effect, i.e. population parameter value, to vary across studies. This difference in assumptions is important as it results in the two models using different error terms in computing tests of significance and confidence intervals (Borenstein et al. 2009: 195; Hunter and Schmidt 2004). An inappropriate application of the fixed-effect model, i.e. when population parameters vary across studies, can result in erroneously narrow confidence intervals and Type I error rates that are higher than the nominal values – the tests of significance would reject a null hypothesis when it is true (Hunter and Schmidt 2004: 394).

Three reasons warrant selecting the RE model or mixed-effects model that has the features of two while abstaining from using the FE model. First, although some research domains can be homogeneous in terms of substantive population parameters

⁵ Even if different authors use the same countries and time periods, the standard practice in meta-analysis is to treat the derived estimates as independent; therefore, this doesn't pose a problem (Doucouliagos and Ulubaşoğlu 2008).

(allowing the application of the FE model), for cross-national time-series research on the relationship between oil wealth and political regime such assumption of homogeneity in would be unrealistic. It is more plausible that there are also substantive, not only methodological, factors that explain different effect sizes (National Research Council 1992). Second, the moderator variables can capture some of the variation among size effects, but usually not all (Borenstein et al. 2009). Third, Hunter and Schmidt (2004: 395) suggest “even if there is no substantive variation in population parameters, differences across studies in such methodological factors as reliability of measurement, range variation, or dichotomization of continuous variables will create differences in study population parameters” (395).

Galbraith plot for heterogeneity (Figure 2-5) confirms that the estimates are quite heterogeneous – a number of estimates (represented by small circles) lie beyond the confidence interval of the regression line (i.e. two units over and below the regression line). If they were homogeneous, we would expect all circles to lie within the confidence bounds. Therefore, a fixed-effect model can be misleading and random-effects model is selected a priori.

Figure 2-5. Galbraith Plot for Heterogeneity, All-Set

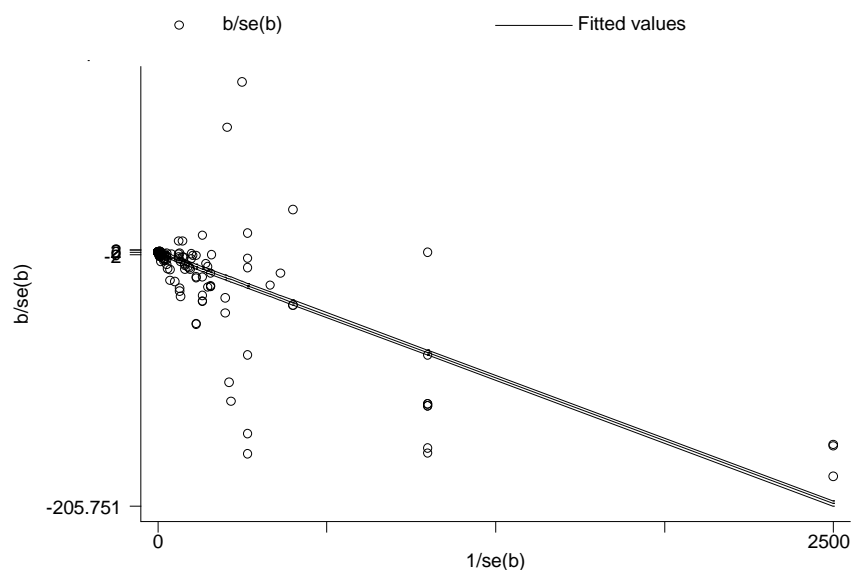


Table 2-5 reports several models fitted using three estimation methods. Models 1-3 are RE models with different covariates using residual maximum likelihood (ReML) through conventional meta-regression that are estimated using the All-Set. Models 4-6 are mixed-effects multilevel models estimated using ReML where estimates are clustered by study. Models 7-9 are RE panel models estimated using generalised least squares (GLS) regression technique where estimates from each study form groups.

Models 10-12 repeat each of the previous models on more economical number of covariates.

2.5.3 Results

2.5.4 Regional effects

One of the most consistent findings is that the Latin America variable has a robust, significant, and positive sign in the MRA in all three kinds of models, regardless of how the dependent and independent variables are measured. In other words, the inclusion of Latin America in the sample has a positive impact on effect size. This implies that in Latin America oil-regime effects are different from the general negative pattern. This is consistent with the finding of Dunning (2008) who, drawing on the literature on political development in Venezuela (e.g., Blank 1980; Karl 1987; Briceno-Leon 2005) showed that in Latin America oil wealth not only didn't undermine democracy, but fostered it.

Sub-Saharan and South Africa variable, on the other hand, has unclear effect. It has a negative sign through all fitted models, but loses its significance at 0.05 in the models that treat the estimates in groups clustered by study.

Inclusion of the Middle East and North Africa variable in the sample, however, has a clearly non-significant impact on effect size. This implies that, controlling for other regions, inclusion of the Middle East and North Africa does not change the result. This is an important finding, first suggested by Ross (2001), which can be interpreted as showing that oil-regime effects are not circumscribed to the Middle East and North Africa – the geographic region, whose experience served as an empirical basis for the rentier-state theory.

In general, statistically significant findings on regional effects corroborate implicit and explicit claims by several authors on the regional differences in oil-regime effects (Ross 2001; Herb 2005; Dunning 2008; Ross 2009; Haber and Menaldo 2011).

2.5.5 Time-varying effects

Among the time dummies, only pre-1990s is has a statistically significant and negative sign in four specifications, including at 0.01 level in three specifications. This can imply that the hypothesized negative oil-regime effects were at work in pre-1960s period. However, when the estimates are grouped by study in multilevel and panel specifications, this variable has a negative and statistically significant sign only once. It should be noted, though, that this finding is based on a relatively small number of estimates.

Table 2-5. Meta-Regression Analysis, Oil-Political Regime Effects, All-Set (Dependent variable = partial correlations)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Metareg ReML (RE)	Metareg ReML (RE)	Metareg ReML (RE)	Mixed- effects REML regression (MLM)	Mixed- effects REML regression (MLM)	Mixed- effects REML regression (MLM)	Random- effects GLS regression (panel)	Random- effects GLS regression (panel)	Random- effects GLS regression (panel)	Metareg ReML (RE)	Mixed- effects REML regression (MLM)	Random- effects GLS regression (panel)
<i>lamerica</i>	0.159 (3.20)***	0.157 (3.12)***	0.159 (3.20)***	0.092 (2.69)***	0.100 (2.87)***	0.100 (2.87)***	0.055 (1.86)*	0.063 (2.00)**	0.063 (2.00)**	0.108 (2.87)***	0.091 (2.91)***	0.077 (2.85)***
<i>ssafrica</i>	-0.237 (-2.84)***	-0.217 (-2.57)***	-0.237 (-2.84)***	-0.100 (-1.87)*	-0.091 (-1.70)*	-0.091 (-1.70)*	-0.101 (-1.91)*	-0.077 (-1.45)	-0.077 (-1.45)	-0.223 (-3.25)***	-0.141 (-3.36)***	-0.144 (-3.64)***
<i>mideastna</i>	-0.063 (-0.72)	-0.056 (-0.64)	-0.063 (-0.72)	-0.037 (-0.89)	-0.030 (-0.72)	-0.030 (-0.72)	-0.043 (-0.97)	-0.032 (-0.72)	-0.032 (-0.72)			
<i>otherreg</i>	-0.059 (-0.65)	-0.074 (-0.81)	-0.059 (-0.65)	-0.043 (-0.74)	-0.043 (-0.72)	-0.043 (-0.72)	0.003 (0.05)	-0.022 (-0.40)	-0.022 (-0.40)			
<i>logn</i>	0.047 (3.26)***	0.045 (3.05)***	0.047 (3.26)***	0.031 (2.46)***	0.026 (1.97)**	0.026 (1.97)**	0.052 (5.56)***	0.044 (4.19)***	0.044 (4.19)***	0.062 (7.20)***	0.048 (5.23)***	0.052 (7.76)***
<i>usedpre1960</i>	-0.161 (-2.56)***	-0.119 (-1.85)*	-0.161 (-2.56)***	-0.087 (-1.33)	-0.067 (-0.99)	-0.067 (-0.99)	-0.108 (-2.61)***	-0.069 (-1.47)	-0.069 (-1.47)			
<i>used1960_70s</i>	-0.055 (-0.80)	-0.048 (-0.69)	-0.055 (-0.80)	0.013 (0.36)	0.017 (0.47)	0.017 (0.47)	-0.003 (-0.10)	0.005 (0.13)	0.005 (0.13)			
<i>used1980_90s</i>	0.012 (0.16)	0.017 (0.22)	0.012 (0.16)	0.049 (0.96)	0.057 (1.10)	0.057 (1.10)	0.017 (0.37)	0.034 (0.69)	0.034 (0.69)			
<i>used2000s</i>	0.013 (0.38)	0.024 (0.63)	0.013 (0.38)	0.046 (1.39)	0.053 (1.51)	0.053 (1.51)	0.000 (0.00)	0.018 (0.66)	0.018 (0.66)			
<i>oilxpgdp</i>		0.086 (1.93)*			0.021 (0.50)	0.021 (0.50)	0.001 (0.03)	0.071 (2.06)**	0.071 (2.06)**			
<i>oilxexp</i>	0.007 (0.16)	0.104 (2.27)**	0.007 (0.16)	0.002 (0.04)	0.051 (1.14)	0.051 (1.14)		0.083 (2.07)**	0.083 (2.07)**			
<i>oilrpc</i>	-0.118 (-3.15)***		-0.118 (-3.15)***	-0.076 (-2.27)**			-0.120 (-4.12)***			-0.091 (-3.68)***	-0.065 (-2.72)***	-0.081 (-4.44)***

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>oilcdummy</i>	-0.111 (-2.10)**	-0.028 (-0.44)	-0.111 (-2.10)**	-0.031 (-0.73)	0.004 (0.07)	0.004 (0.07)	-0.038 (-1.16)	0.033 (0.81)	0.033 (0.81)			
<i>natres</i>	-0.006 (-0.11)	0.092 (1.66)	-0.006 (-0.11)	-0.025 (-0.80)	0.016 (0.44)	0.016 (0.44)	-0.023 (-0.76)	0.052 (1.58)	0.052 (1.58)			
<i>polity</i>	-0.050 (-1.78)*	-0.060 (-2.10)**		-0.032 (-1.30)	-0.036 (-1.47)		-0.025 (-1.15)	-0.033 (-1.41)		-0.044 (-2.10)**		
<i>gastil</i>			0.050 (1.78)*			0.036 (1.47)			0.033 (1.41)			
<i>dumtrich</i>	0.003 (0.06)	-0.006 (-0.13)	0.053 (1.32)	0.009 (0.22)	0.006 (0.15)	0.042 (1.21)	-0.007 (-0.21)	-0.004 (-0.11)	0.029 (0.90)			
<i>epistemic</i>	0.103 (2.33)**	0.087 (1.97)**	0.103 (2.33)**	0.011 (0.20)	-0.018 (-0.31)	-0.018 (-0.31)	0.081 (2.78)***	0.044 (1.27)	0.044 (1.27)	0.095 (3.71)***		
<i>prior</i>	-0.053 (-1.69)*	-0.041 (-1.29)	-0.053 (-1.69)*	0.003 (0.07)	0.026 (0.47)	0.026 (0.47)	-0.045 (-1.98)**	-0.022 (-0.73)	-0.022 (-0.73)	-0.054 (-2.11)**		
<i>nools</i>	0.041 (1.10)	0.056 (1.47)	0.041 (1.10)	0.021 (0.61)	0.024 (0.68)	0.024 (0.68)	0.030 (1.08)	0.038 (1.27)	0.038 (1.27)			
<i>cfeffects</i>	0.058 (1.31)	0.067 (1.50)	0.058 (1.31)	0.118 (4.08)***	0.119 (4.07)***	0.119 (4.07)***	0.095 (3.89)***	0.104 (3.87)***	0.104 (3.87)***		0.118 (4.65)***	0.118 (6.31)***
<i>oilendo</i>	0.084 (1.46)	0.041 (0.74)	0.084 (1.46)	0.148 (2.64)***	0.145 (2.52)***	0.145 (2.52)***	0.062 (1.51)	0.062 (1.34)	0.062 (1.34)		0.126 (3.08)***	
<i>period</i>	0.084 (2.49)***	0.075 (2.21)**	0.084 (2.49)***	0.128 (3.09)***	0.135 (3.08)***	0.135 (3.08)***	0.049 (2.06)**	0.056 (1.98)**	0.056 (1.98)**		0.132 (4.32)***	0.062 (3.20)***
<i>regional</i>	0.032 (0.93)	0.041 (1.18)	0.032 (0.93)	0.029 (0.99)	0.029 (0.98)	0.029 (0.98)	0.011 (0.44)	0.026 (0.99)	0.026 (0.99)			
<i>colonial</i>										0.073 (2.16)**	0.048 (1.73)*	0.087 (3.12)***
<i>lagreg</i>	0.047 (1.59)	0.044 (1.42)	0.047 (1.59)	0.021 (0.95)	0.021 (0.95)	0.021 (0.95)	0.020 (1.02)	0.017 (0.81)	0.017 (0.81)			
<i>income</i>	0.001 (0.02)	0.015 (0.44)	0.001 (0.02)	0.014 (0.53)	0.014 (0.52)	0.014 (0.52)	0.023 (0.95)	0.028 (1.10)	0.028 (1.10)			

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<i>islam</i>	-0.014 (0.46)	-0.021 (0.66)	-0.014 (0.46)	0.018 (0.68)	0.017 (0.61)	0.017 (0.61)	-0.001 (0.04)	0.003 (0.13)	0.003 (0.13)			
<i>inequality</i>	-0.005 (0.12)	-0.001 (0.02)	-0.005 (0.12)	0.004 (0.10)	0.002 (0.05)	0.002 (0.05)	-0.007 (0.23)	-0.002 (0.06)	-0.002 (0.06)			
<i>ethnic</i>	0.154 (3.17)***	0.178 (3.62)***	0.154 (3.17)***	0.046 (1.19)	0.050 (1.26)	0.050 (1.26)	0.077 (2.39)**	0.072 (2.08)**	0.072 (2.08)**			
<i>educ</i>	-0.086 (1.92)*	-0.087 (1.82)*	-0.086 (1.92)*	-0.044 (0.99)	-0.027 (0.58)	-0.027 (0.58)	-0.080 (2.65)***	-0.064 (1.82)*	-0.064 (1.82)*			-0.059 (2.66)***
<i>communist</i>												-0.100 (2.42)**
<i>_cons</i>	-0.187 (1.49)	-0.300 (2.23)**	-0.237 (1.88)*	-0.350 (3.71)***	-0.396 (4.05)***	-0.433 (4.51)***	-0.373 (4.72)***	-0.464 (5.16)***	-0.497 (5.61)***	-0.347 (4.26)***	-0.395 (6.43)***	-0.358 (6.72)***
<i>Observations</i>	262	262	262	262	262	262	262	262	262	262	262	262
<i>Groups</i>				30	30	30	30	30	30		30	30
<i>R-squared</i>							0.43	0.39	0.39			0.39
<i>Adj R-squared</i>	0.35	0.32	0.35							0.32		
<i>Log restricted-likelihood</i>				142.07	139.98	139.98					182.21	
<i>Wald chi2</i>				122.87***	117.91***	117.91***	175.84***	123.51***	123.51***		103.71***	146.44***

Other time dummies have positive and negative signs, but none is significant at any conventional level of statistical significance. This runs contrary to the arguments that later decades, especially 2000s, have more positive signs in oil-regime effects. In short, once the entire empirical literature on oil-regime effects is pulled together, time-varying effects do not seem to have a significant impact on the effect size.

However, the number of observations variable (*logn*) has a positive coefficient that is robust and statistically significant at the 0.01 level through almost all models. The number of observations is a function of the number of countries and the number of years that the sample covers. Therefore, the positive coefficient might imply that increasing either the geographic or temporal coverage, or both, results in more positive estimates. This finding lends credence to the argument that more longitudinal studies can undermine the argument that oil wealth hinders democracy (Haber and Menaldo 2011). At the same time, extending the analysis to the periods when oil may not have had the same economic, political and strategic properties it currently has can be questionable.

2.5.6 Measurement effects

One of the most important issues in the resource curse literature is how to conceptualize and measure resource wealth, in general, and oil abundance, in particular. It is crucial because the way we choose to measure the explanatory or outcome variables can have a significant impact on study results. The models above show exactly this.

Measuring oil wealth as the *ratio of oil exports to GDP* comes out having a positive and statistically significant coefficient in three models, including two at the 0.05 level. However, the result does not seem to be robust. Similarly, measuring oil wealth as the *ratio of oil exports to total exports* has a positive coefficient statistically significant at 0.05 levels in three models, including two panel GLS regression models. Including a dummy for oil-rich country, on the other hand, has a negative impact on effect size in two models. But this result is not robust when multilevel and panel models are fitted. The most robust result is that *oil rents per capita* variable has a consistently negative and statistically significant coefficient, mostly at the 0.01 level. This means that the estimates derived using this measure show more negative signs than the estimates derived using other measures. If, as Ross (2008) suggests, the oil rents per capita is a much better measure of oil wealth than previously used measures (such as oil exports/GDP), which tend to be biased, then our results suggest that using a better measure points at more negative oil-regime effects.

The results are different when we consider the measurement of the dependent variable – political regime. The extant studies measure this variable in three ways: as a Polity IV index (Marshall, Gurr, and Jagers 2010), Gastil index (Freedom House 2010), or dichotomous/trichotomous variable (Przeworski et al. 2000; Epstein et al. 2006). Among these variables, only *polity* is statistically significant in three models and has a negative sign, implying that when the estimates are derived using Polity variable the results tend to be negative. However, this result is not robust when multilevel and panel models are fitted. Neither *gastil*, nor *dumtrich* variable is statistically significant at any conventional level of significance, except in one instance. In short, the choice of the measurement of the dependent variable in deriving oil-regime effects does not seem to affect results.

2.5.7 Specification effects

Among specification effects, the coefficients for the *regional*, *lagreg*, *income*, *islam* and *inequality* variables are not statistically significant at any conventional level of significance. Including these variables in regressions does not have a statistically significant impact on effect size. The *period* dummy, on the other hand, has a positive, statistically significant, and robust effect – including a *period* variable in the regression results in more positive estimates of oil-regime effects. There is also a mixed support for the variable *ethnic* – it has a positive and statistically significant coefficient in six models in at least the 0.05 level, but this result is not robust when multilevel models are fitted. Similarly unclear effect is that of the variable *education* – it has a negative and statistically significant coefficient in several models. There is also some support for *colonial* (positive coefficient) and *communist* (negative coefficient) variables.

2.5.8 Estimation effects

The variable measuring whether the estimate was derived using an estimation method other than OLS – *nools* – has a positive sign, but is not significant at any conventional level of significance in any of the models. At the same time, the other two variables capturing estimation effects – whether country-fixed effects were used (*cfeffects*) and whether oil was treated as endogenous (*oilendo*) – have positive and statistically significant (at the 0.01 level) coefficients in several models. *Cfeffects* is significant in both multilevel and panel models. There is some, but unclear support to hypotheses that using country-fixed effects results in more positive estimates. *Oilendo* is significant in the multilevel models, but is not robust when panel models are fitted.

2.5.9 Knowledge effects

Finally, the coefficient of the *epistemic* dummy – whether the author acknowledges feedback of other authors – has a positive sign and is statistically significant in the four models, but this result is not robust in any of the multilevel and two of the three panel models. The variable *prior*, which measures the author's prior engagement with the topic of the relationship between oil-democracy effects, is only marginally significant in several models.

2.6 Conclusion: beyond average effects and idiosyncrasies

2.6.1 What we know about political resource curse

Summarizing the findings of the meta-analysis, there is a robust negative, although small, association between oil and democracy. This confirms findings of both the *rentier-state* theorists (e.g., Anderson 1987; Beblawi and Luciani 1987; Karl 1997) and the scholars who have put their arguments to large-N quantitative tests and arrived at the same conclusion (e.g., Ross 2009; Ross 2001; Jensen and Wantchekon 2004; Ulfelder 2007; Aslaksen 2010).

One of the most consistent findings of the above analysis concerns the regional variation pointed out by several scholars (Ross 2001; Herb 2005; Dunning 2008; Ross 2009; Haber and Menaldo 2011). The inclusion of Latin America in the sample has a positive impact on the effect size. This implies that in Latin America the relationship between oil wealth and democracy may be positive, not negative, as suggested by Dunning (2008). Inclusion of sub-Saharan and South Africa has a mixed effect. Inclusion of the Middle East and North Africa variable in the sample, however, has a clearly non-significant impact on effect size. The same is true for other world regions. This implies that the political resource curse is not limited to the Middle East and North Africa (MENA). In advanced industrialized democracies oil may not undermine democracy since in this group of countries both oil wealth and oil dependence are low. But the above result may well characterize former Soviet Union, East Asia, and other regions beyond the MENA throughout the post-WWII period. Time, on the other hand, does not seem to have a significant impact on results.

The way we choose to measure the explanatory variable – oil wealth – has a significant impact on study results. The most robust result is that *oil rents per capita* variable has a consistently negative and statistically significant coefficient. If, as Ross (2008) suggests, the oil rents per capita is a much better measure of oil wealth than previously used measures (such as oil exports/GDP, which is imprecise and can be biased both in the numerator and the denominator since they hide a lot of other

information about countries), then our results suggest that using a more precise and less biased measure points at more negative oil-regime effects. At the same time, the choice of the measurement of the dependent variable – democracy – does not seem to affect results.

Three most hypothesized confounders of the relationship between oil wealth and democracy are previous regime, income, and Muslim population. According to the meta-regression analysis above, none of these variables has a significant bearing on results – including these variables in regressions does not have a statistically significant impact on effect size. This implies that the oil-regime effect does not change with the values of these variables. At the same time, the effect of other possible confounders – colonial and communist legacy – is mixed.

These results hold under different estimation methods – regardless of whether OLS is used or not, the results do not change. Introducing country-fixed effects, on the other hand, can result in more positive estimates, although the record is mixed. However, the validity of using country-fixed effects is an open question. Finally, the evidence for an “epistemic influence” among different scholars is mixed.

2.6.2 What we don’t know about ‘political resource curse’ and why

Along with things we know about the ‘political resource curse’ we currently have either cursory or no answer to several important questions. The first group of questions concerns the causal mechanisms. What are the channels through which oil abundance affects political regime? Single and comparative case studies – of predominantly Middle Eastern and North African countries – provide several clues (e.g., taxation, spending, group formation, repression, and modernization) that are tested in Ross (2001; 2009). Alternative explanations put forth other causal mechanisms, such as asset specificity (Boix 2003), corruption (Fish 2005), inequality (Dunning 2008), and foreign support (Ross 2009). However, there is little to no consensus on whether these variables are the transmitters of the ‘political resource curse’. While the only comprehensive cross-national statistical test of various mechanisms treats them as separate mechanisms for reasons of conceptualization (Ross 2001), case studies mostly conflate various mechanisms (e.g., Beblawi and Luciani 1987; Chaudhry 1997; Karl 1997). As a result, we are far from understanding what causal mechanisms, if any, mediate the relationship between oil wealth and political regime type, what explains the variation in taxation, patronage and repression among oil-rich countries, and whether this variation entails different regime outcomes.

Some issues, such as the role played by external legitimation, remain largely unexplored. Bayulgen (2005) and Yates (1996), for example, provide interesting case studies of the role played by external factors, such as strategic interests of influential states or foreign capital, in entrenching authoritarian leaders. However, these hypotheses have not been examined in cross-national time-series settings, with the partial exception of Ross (2009), who provides a cursory look at this issue.

Finally, one of the pressing practical questions is does oil wealth have a uniform effect on political institutions across oil-rich countries? Extant studies of the 'political resource curse' show the average effect of oil wealth on political institutions, while failing to explain its ultimate effect, which is likely to vary in different contexts (Dunning 2008; Ross 2009). Therefore, conditions that refract the oil's effect on regime remain in the dark. For example, while oil windfalls can induce new institutions and coalitions, they nevertheless enter a complex set of pre-existing structures, institutions, and political power distributions. In her analysis of opposition to the ruling family in Saudi Arabia, Okruhlik (1999) concludes that "oil enters into an on-going process of development and into a constellation of identities" (309). Smith (2007) argues that the effects of oil wealth are likely to depend on the institutional variation because institutions usually predate oil discoveries. Lowi (2004) also argues that oil rents are likely to consolidate "what is already in place" (87). But the effect of these structures and institutions on the relationship between oil wealth and political regime has been neither theorized, nor tested.

The variation in regime *stability* among oil-rich states also remains a puzzle. While oil-rich authoritarian regimes as a group are significantly more stable in the face of crises than other nondemocratic regimes (Smith 2004; Ulfelder 2007), nonetheless they differ in their post-crisis trajectories – a few (e.g., Congo-Brazaville and Nigeria 1979) broke down and reverted to authoritarianism, some (e.g., Nigeria 1999, Gabon) liberalized and still some (e.g., Indonesia and Ecuador) achieved moderate levels of democratic consolidation (Marshall and Jagers 2005; Freedom House 2007). What can account for these differences? Comparing Indonesia and Iran, Smith (2007) attempts to explain the variation in outcomes in terms of timing of oil production – where oil production started with strong societal opposition and low external rents the regime ended up stronger than in the countries where it started with little opposition and easily accessible rents. He suggests that these are the causes of the former being able to withstand pressures induced by international price shocks and to survive crises, while the latter broke down. Yet, arguing that the coalitions forged between the ruling elites and coalitions are responsible for authoritarian survival, Smith (2007) fails to explain

why these robust coalitions are not prone to crumbling. Furthermore, factors other than broad-based coalitions, e.g. geopolitical differences and differences in diversifying economies, could also have added up to the differences in regime outcomes.

The pursuit of the answers to these questions is complicated by a number of theoretical and methodological issues that characterize this body of research. Teleological assumptions are one such problem. For example, drawing on the literature on the role played by taxation in the emergence of Western democracies (Tilly and Ardant 1975), several studies (Skocpol 1982; Anderson 1987; Beblawi and Luciani 1987) assume that increased taxation would entail more accountability. The cross-national test of this argument by Ross (2001) implicitly predicts the same. As pointed out by Waterbury (1994) in the case of Middle Eastern states, this might be a teleological expectation that does not hold empirically. It also fails to explain why democratization took place in resource-poor countries in former Soviet Union where taxes relative to government services had been lower than in their resource-rich counterparts as, for example, in the case of Georgia in 2003 and Kyrgyzstan 2004.

Second, as the meta-analysis above showed, the extant scholarship demonstrates a variety of conceptualizations and operationalizations of key variables. While the debate over whether oil wealth or oil dependence is a key variable in explaining political regime outcomes remains unresolved, some studies, such as Karl (1997) blur the line separating these two variables. Others conflate different natural resources (Herb 2005). As a result, it is unclear whether different resources have the same or different effect, and if different, which one is the key. Ross (2001, 2009) and Haber and Menaldo (2011) provide a solution by treating these variables separately and comparing the results, but this practice is not followed by all studies. Similar problems exist in the conceptualization and operationalization of the dependent variable. As Ulfelder (2007) points out, from the methodological standpoint the model used by Ross (2001) is not well suited to isolating the effects of oil wealth on the persistence of authoritarianism as it tries to account the relationship between oil wealth and reversals of democracy as well as the relationship between oil wealth and authoritarian durability.

Third, cross-national quantitative studies are marred with data quality issues. For example, public finance data, especially on taxation and spending, are based on official figures, collected by the World Bank and the International Monetary Fund from national statistical agencies. However, these data can be misleading as Lieberman (2002) shows. For instance, they do not always take into account real money flows, which in the case of many developing countries can be much larger and variegated.

Finally, the inferential leverage that could be provided by a qualitative inquiry has not been fully tapped by the scholarship on the effect of oil wealth on democracy (with the exception of Dunning 2008). Quantitative large-N studies are indispensable for spotting cross-country correlations, but they can be of limited use for causal inference. Qualitative studies on the topic, however, are often based on idiosyncratic single country analyses or “convenience samples” and therefore, have limited external validity.

Table 2-6. Studies Included in Meta-Analysis

Aslaksen 2010	Haber and Menaldo 2011	Potrafke 2010
Barro 1999	Herb 2005	Ramsay 2010
Boix 2003	Horiuchi and Waglé 2008	Ross 2001
Borooah and Paldam 2007	Jensen and Wantchekon 2004	Ross 2009
de Mesquita and Smith 2009	Kalyvitis and Vlachaki 2008	Rowley and Smith 2009
Djankov et al. 2008	Kennedy 2008	Smart 2009
Dunning 2008	Mainwaring and Pérez-Liñán 2008	Treisman 2010
Epstein et al. 2006	Noland 2008	Tsui 2009
Gassebner et al. 2009	Oskarsson and Ottosen 2010	Ulfelder 2007
Gurses 2009	Papaioannou and Siourounis 2008	Werger 2009

3 The Conditional Effect of Oil on Autocracy: A Theory and Its Investigation

3.1. Introduction

What explains the variation in the level of autocracy in oil-rich countries? Why do even similar oil-rich autocracies differ in their level of autocracy and degree of autocratic stability? This chapter presents a stylized model that helps explain the variation in political institutions in oil-rich states of Central Eurasia. In particular, I will explain why, despite so many similarities, these oil-rich post-communist states have throughout the post-Soviet period differed both in the level and type of autocracy.

In answering these questions, I move beyond the *sweeping democracy-autocracy dichotomy* that sometimes disregards important differences that exist among similar regime types (e.g., Przeworski et al. 2000). Furthermore, mechanisms that potentially link oil wealth to political regime might be different across different regime types – the observation that has been largely overlooked in the resource curse literature – necessitating a more nuanced approach (Ulfelder 2007; Ross 2009). Despite the relative obscurity of our knowledge of the inner workings of autocracies – by definition and due to secrecy these regimes are much harder to investigate than democracies – I undertake the challenge of explaining the shades of this ‘darkness’ – varieties of autocracy among oil-rich countries and how they change over time. Although all oil-rich Central Eurasian states have autocratic regimes, these autocracies have differed both qualitatively and in the level of centralization of political power (see, for example, Jones Luong 2002; Way and Levitsky 2006). The heuristic model proposed below incorporates ideas from several bodies of research and amalgamates their insights to build a coherent theoretical framework to explain why this is so.

3.1.1. Ontological perspective

The ontology⁶ that underlies this model moves away from the assumptions of causal homogeneity, linearity, and additive effects toward those of causal complexity, path dependence, and strategic interaction among actors in explaining social and specifically political phenomena. First, it stresses that social and political worlds are characterized by multicausality and multiple interaction effects (Hall 2003; George and

⁶ Following Hall (2003), I use the term ontology “to refer to the fundamental assumptions scholars make about the nature of the social and political world and especially about the nature of causal relationships within that world. If a methodology consists of techniques for making observations about causal relations, an ontology consists of premises about the deep causal structures of the world from which analysis begins and without which theories about the social world would not make sense. At a fundamental level, it is how we imagine the social world to be” (2003: 373).

Bennett 2005; Ragin 1987; Mahoney 2007; Schmitter 2009). Joining Hall (2003) and George and Bennett (2005), among others, it emphasizes that understanding causal mechanisms is key for causal explanation. I also concur with Falleti and Lynch (2009) in that variation in outcomes, including equifinality and multifinality of outcomes, is usually the function of the interaction between causal mechanisms and context, and that convincing causal explanation is possible only if this interaction is taken account of.

Second, this ontology does not assume that the causes of a phenomenon continue to have the same effect, if any, on that phenomenon over time. Rather, it calls for alertness and discernment of possible path dependencies and “feedback loops” (Collier and Collier 1991; Pierson 2000; Mahoney 2000; Thelen 1999).

Finally, drawing on Milner (1997) and Bates et al. (1998), the ontological perspective of this study also views political phenomena as outcomes of strategic interaction among political actors that can be usefully modelled by non-cooperative game theory (Hall 2003). While the previous view underlines the role that long-term macro-historical forces play in shaping political outcomes, the strategic-interaction perspective shows how these forces translate into specific political outcomes through influencing micro-level reasoning and action. Representation of causal events in the form of trees – such as, extensive form representation of games – helps to both discover the embeddedness of temporally circumscribed causal models in larger – and, alas, - more complex, yet more convincing configurations of variables, and explicate the counterfactual situations, i.e. “roads not taken” (Bates et al. 1998; McKeown 2004: 151).

3.1.2. Theoretical approach

Such ontological perspective, in turn, influences the theoretical approach and methodology of this study. In investigating reasons for varying outcomes in one of the key political institutions – political regime - my theoretical approach integrates and builds on ideas from largely two streams of ‘new institutionalism’: historical institutionalism and rational choice institutionalism. From historical institutionalism I borrow the relatively broad view of the relationship between institutions and human behaviour, which grants for human behaviour to be both instrumental and circumscribed by the individual’s worldview, which can and does sometimes prompt recourse to established routines (Hall and Taylor 1996). Furthermore, drawing on the literature on “big structures, large processes” (Moore 1967; Skocpol 1979; Tilly 1984, 1988), I see – and this study purports to show – institutions as products not only of rule-making by relevant actors, but also of resilient path-dependent processes and, sometimes, unintended consequences. My theoretical approach also follows historical

institutionalism in that it does not attribute exclusive role to institutions in accounting for political outcomes; rather, it maintains that institutions can form part of an explanation along with other structural factors, such as socioeconomic development and ethnic diversity, or with ideational factors.

This study also draws on rational choice institutionalism in that it analyses institutional development through reasoning and choices of actors placed in their immediate strategic contexts. In other words, it looks at mechanisms by which macro-structural factors translate into political outcomes (Shepsle 1979; Bates et al. 1998; Bueno de Mesquita et al. 2003; Katznelson and Weingast 2005). The element of interaction here is important: actors make decisions through strategic calculus, which depends largely on their expectations of what other actors are likely to choose, given their interests and capabilities. Some choices are of course more constrained than others. Resulting institutions can be viewed as equilibrium outcomes that change primarily when there is a change in exogenous factors (Bates et al. 1998: 233); in other words, they are *structure-induced equilibria* (Shepsle 1979). In addition, I share rational-choice institutionalism's characterization of politics "as a series of collective action dilemmas" (Hall and Taylor 1996: 945).

However, the theoretical approach of this study parts with much of rational choice institutionalism that propounds the view of institutional creation as a voluntary agreement and relies on a strong assumption of rationality of actors. Instead, I concur with many historical institutionalists and some rational-choice institutionalists who insist that new institutions are developed amid existing ones and that the power asymmetries embedded in existing institutions have a critical impact on new institutions (Bates 1988; Hall and Taylor 1996). From this point of view, institutions are not necessarily purposive and efficiency-maximizing rules of the game – such a view overlooks inefficiencies inherent in some institutions (Hall and Taylor 1996). Furthermore, such quasi-contractual view of politics can be inherently apolitical as it neglects one of the most widely used instruments in politics – coercion. Therefore, my theoretical approach draws on the work of Bates et al. (1998), Olson (2000), and Bueno de Mesquita et al. (2003) in its attention to and explicit treatment of the role of threats and force.

Furthermore, in contrast to many rational-choice theorists, I do not see instrumentality as based on the assumption of "perfect, logical, deductive rationality" on the part of actors (Arthur 1994: 406). Such assumption is easily violated in social, economic, and political situations too complex for actors to cope given the limitations of their logical faculties, available information, and time. Furthermore, in complex

interactive situations, actors may not rely on perfect rationality on the part of other actors either. Therefore, my theoretical approach bases instrumentality of human behaviour, at least when it comes to political situations, on “bounded rationality” (Simon 1982; Arthur 1994; Gigerenzer and Goldstein 1996).

The model elaborated below draws on several theories. The *rentier state* theory and ‘resource curse’ thesis form the foundation of this theoretical framework. However, the specific goal of this study is to test and refine one of the three important arguments of these closely related theories – the relationship between natural resource wealth and adverse political regime outcomes, i.e. the ‘political resource curse’ (Dunning 2005; Morrison 2005). Although my theoretical framework agrees with these theories in that natural resource abundance, particularly in oil and gas, sustains and often promotes autocracy where one is already in place, I depart from them in evaluating ultimate effects of these resources on autocracy.

Specifically, this model shows that the level and durability of autocracy may not be the function of the amount of resource rents⁷ only, but rather of how resource rents interact with other salient structural and institutional factors. In doing so, I move away from *ceteris paribus* argument – “average effect of oil, all other things being equal” – since in the real world, to paraphrase this principle, *ceteris* are almost never *paribus*. This model suggests that, in individual cases or sets of cases, a particular interaction of these variables can affect the causal mechanisms linking oil to political regime differently, ultimately entailing different regime outcomes. Therefore, the causal mechanisms hypothesized in the ‘resource curse’ literature – ‘rentier effect’, ‘repression effect’ and ‘modernization effect’ – would be neither necessarily triggered in each case, nor uniform across cases. Furthermore, in terms of temporal change, their values would not necessarily change in tune with fluctuations in oil rents, but rather with those of specific conjunctions of structural and institutional variables that interact with oil. In order to be theoretically and practically more relevant, the burgeoning ‘resource curse’ literature needs to identify these context variables and how they interact with oil in affecting causal mechanisms and regime outcomes over time.

3.1.3. Methodological choice

My choice of methodology follows from the ontological perspective⁸ outlined above.⁹ I concur with Hall (2003) in that the ontologies of comparative politics have

⁷ Ross (2001: 343): “barrel for barrel, oil harms democracy more in oil-poor countries than in oil-rich ones.”

⁸ As Hall (2003: 374) points out “ontology is ultimately crucial to methodology because the appropriateness of a particular set of methods for a given problem turns on assumptions about the nature of the causal relations they are meant to discover”.

outpaced the methodologies currently popular in the field. These ontologies increasingly see the social world as abounding with multicausal relations and interaction effects that might not be adequately captured by regression-based modelling since such modelling often rests on simpler, unrealistic assumptions about the causal structure of the world (Hall 2003). Since my goal is to pinpoint structural and institutional variables that interact with oil in affecting the causal mechanisms believed to link oil abundance to political regime and to examine the effect of these causal mechanisms on regime outcomes, a small-N qualitative design that is alert to multicausality, path-dependence and endogeneity appears to be a better choice than the large-N quantitative alternative and conventional comparative method as propounded by Lijphart (1971). In other words, the particularities of context and unexplored state of this research terrain render large-N regression modelling as well as essentially correlational small-N a less powerful alternative. Therefore, I draw on methodological refinements in qualitative small-N design with their emphasis on structured across-case comparisons that rely on explicit theory-guided within-case process-tracing (Hall 2003; Brady and Collier 2004; George and Bennett 2005).

In order to guide process tracing, I employ elements of the analytic narratives approach (Bates et al. 1998). Like many rational-choice accounts, analytic narratives use formal modelling. Unlike many rational-choice accounts, they analyse actors and their strategic interactions as embedded in their specific historical, social and political settings. In other words, analytic narratives combine an explicit formal model with deep knowledge of the case to account for creation and development of institutions. I rely on such approach by using formal lines of reasoning (much like Levi 1998) to make my theoretical framework explicit and make sense of messy historical and interview data. However, unlike in analytic narratives presented in Bates et al. (1998), the cases examined in this study are not self-selected; instead, my case selection is theory-guided.

In general, such blending of methodological approaches warrants relying both on deduction and induction, depending on the stage of the research process. For example, I employ deductive reasoning in developing the stylized model below, but use induction in identifying structural and institutional variables that likely interacted with oil in the specific context chosen to test the model. Such approach can necessarily make the line between theory and its testing blurry; however, such interaction between hypotheses and evidence can be both inevitable – as Lakatos (1980) suggests – and productive for developing convincing theories (Munck 2004).

⁹ A detailed justification and presentation of this study's methodology and specific methods is outlined in the methodological section of this chapter. Here I provide a broad rationale.

3.2. Theoretical model

3.2.1. Set-up and actors

The leader of a resource-rich post-socialist state¹⁰ faces the challenge of retaining his¹¹ autocratic control over the country's political system while striving to tackle rapid economic decline and rebuild state institutions to conform to the demands of independent statehood. The following analysis of the ensuing struggle for power integrates and extends arguments from the rentier-state theory and historical-institutional theories of political regime change. Partly drawing on the work of Shirk (1993), Roeder (1993) and Bueno de Mesquita et al. (2003), it grounds these arguments in micro-motives of and interaction among four key groups of actors: an incumbent leader (L), the leader's *winning coalition* (W_L), *selectorate* (S), and disenfranchised citizens (D) (Figure 3-1).

I define the incumbent leadership¹² (L) of the country as a small group of individuals with the authority to raise state revenues and allocate state's resources to pursue chosen policies. The leader is drawn from the *selectorate* (S), a larger group of actors who have political and economic resources to affect the selection of leaders and formulation of policies¹³. I do not assume that all selectorate members are eligible to become a leader, but that all potential leaders are members of the selectorate. Since the country has been largely a colony ruled autocratically, the majority of the population is effectively disenfranchised (hence D) and does not affect the selection of leaders or policy choice. Therefore, the selectorate is a relatively narrow segment of the population. The size of the selectorate is influenced by pre-existing political institutions and structures and can change with endogenous and, more likely, exogenous changes, such as 'imposed liberalization' or fiscal crises¹⁴. Membership in the selectorate entitles the member with an opportunity to become a member of a *winning coalition*.

¹⁰ The model presented below, although takes socialist legacy as one of its key background characteristics for emergent new states, is applicable to other post-colonial states since 1950s. However, such applications should take account of such differences between post-socialist and other post-colonial states as property rights, economic systems, etc.

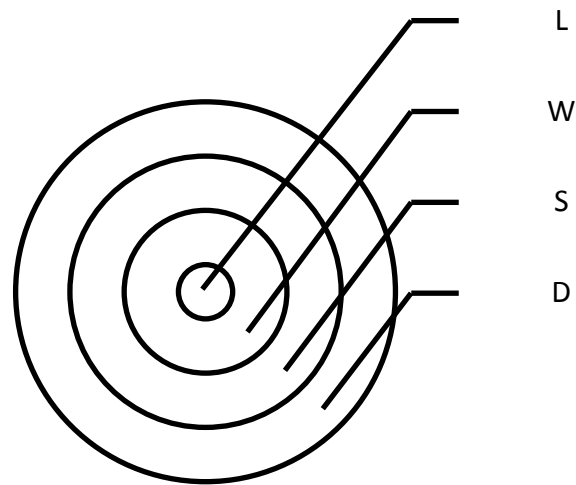
¹¹ Given that many autocrats around the world are in fact males, the leader will be referred to accordingly.

¹² Throughout the thesis, the terms "leader" and "ruling elite" are used interchangeably.

¹³ The term "selectorate" originates from British parliamentary politics. In its original, it defines the group within a political party with the effective power to choose leaders (Paterson 1967; Norris et al. 1990). The term was subsequently applied to Chinese (Shirk 1993) and Soviet (Roeder 1993) politics to define the group of people in the high echelons of respective communist parties, bureaucracy, military, and regional leaders who had a say in the selection of the country's leaders.

¹⁴ It is important to note that the incumbent leaders in many new post-colonial and post-communist countries were selected not by the new country's 'selectorate,' but mostly by the colonial or communist centre. However, after gaining independence, political and economic elites in post-colonial and post-communist countries are likely to become selectorates.

Figure 3-1. Political System in the *Selectorate Theory*



The leader's winning coalition (W_L) is a subset of political actors chosen by the leader from within the selectorate and whose support endows the leader with political power over the rest of the selectorate and disenfranchised members of the society. The winning coalition "controls the essential features that constitute political power in the system" (Bueno de Mesquita et al. 2003: 7). As the leader's patronage network, it benefits most from private goods available to the leader as a head of state. The leader is interested in keeping the winning coalition at the level large enough to attain and keep power, but small enough to maximize the amount of resources that each member of the winning coalition can get. In other words, the leader will strive to keep the minimum-winning coalition (Riker 1962; Bueno de Mesquita et al. 2003), as the case studies will demonstrate. Once the leader loses the support of a sufficient number of winning coalition members, a challenger from within the selectorate can replace him in office (Bueno de Mesquita et al. 2003; Shirk 1993; Roeder 1993).

The political regime in the country is autocratic. I adopt, with slight modifications, components of political regimes proposed by Marshall, Gurr, and Jaggers (2010). The political regime is operationalized as a political institution characterized by the degree of competitiveness of executive recruitment, the degree of openness of executive recruitment, constraints on chief executive, and regulation of political participation¹⁵.

¹⁵ I exclude 'competitiveness of political participation' from the list of political regime indicators, since its operationalization includes repression. This is because repression in this study is treated as a variable largely exogenous to political regime.

The leader's control is challenged by distributive and redistributive pressures emanating from either one or two challenger groups (C). The first group (C') is a subgroup in the selectorate that can potentially remove the incumbent leader and replace him with their own leader if enough number of the winning coalition members defects from the incumbent. The second group (C'') is formed from disenfranchised citizens who are adversely affected by disintegration and worsening economic situation, wish to get more voice in public decision-making, or both. The claims of both groups are partly enabled by prior, exogenous political liberalization. The subsequent struggle for power would yield regime outcomes that theoretically can range from unlimited autocracy through hybrid regime to full democracy. Which type of political regime becomes an "equilibrium outcome" of this struggle is a function of interaction among these four groups of actors. However, the focus of the following analysis is not on the play of the two broad games where the leader is challenged by these groups and responds, but on the role of structural and institutional variables that influence the actors' incentives and strategies and the interaction between these variables and natural resource wealth.

3.2.2. Assumptions

I make three related assumptions regarding the leader's preferences. First, incumbent leaders aim to hold onto power for as long as possible. Second, they strive to maximize the amount of rents, which they can retain for themselves. Third, incumbent leaders aim to maximize their control over policy choice as implemented policies affect future distribution of political and economic power.

Conversely, challenger groups aim to maximize their own benefit from distribution and redistribution of economic and political resources, including highest public offices and public property. In addition, like incumbent leaders, challenger groups aim to maximize their influence on and ideally control over policy choice.

3.2.3. Resources, costs, and context

In the pre-independence period, the fully autocratic regime rested on a combination of high patronage (private goods), moderate coercion, and moderate public goods provision. To retain its autocratic control after the country gains independence, the leader needs to maintain the current system of patronage to satisfy the winning coalition and either co-opt or oppress challengers that demand redistribution, either from within the selectorate or the disenfranchised part of the society, or both.

To be effective, the leader's strategy (Ω_L) should be an optimal combination of patronage, coercion and public goods provision. This strategy will depend on three

groups of factors. First, in order to provide private goods to the winning coalition and public goods to the whole society, and sustain a coercive apparatus, the leader needs *fiscal resources* to satisfy these needs (M_L).

Of course, money is rarely enough in realistic settings. Hence the second factor that affects the leader's strategy of dealing with supporters and opponents is the amount of *political-administrative resources* he possesses (R_L)¹⁶. In general, the more fiscal and political-administrative resources the leader has, the higher his ability to pursue an effective strategy to preserve the current regime.

However, regardless of how large the resources may be, it is important that they are at least *sufficient* to cover the actual costs of staying in office. Hence the third group of factors defining the leader's ability to survive politically and preserve its autocratic control is a combination of three *costs*: costs of patronage (g_L), costs of coercion (c_L), and cost of public goods that keep the economy afloat and society stable (x_L)¹⁷.

Therefore, the incumbent's cost of providing g_L private goods, x_L public goods, and applying c_L coercion, given his coalition of the size W_L and challenger coalition of the size W_C , is

$$|W_L|g_L + px_L + |W_C|g_L \quad (3.1)$$

if the leader chooses to co-opt the challenger, or

$$|W_L|g_L + px_L + |W_C|c_L \quad (3.2)$$

if he chooses to oppress the challenger.¹⁸

Therefore, the leader's strategy is

$$\Omega_L = f\left(\frac{M_L + R_L}{|W_L|g_L + px_L + |W_C|g_L \cup |W_C|c_L}\right) \quad (3.3)$$

if we assume that both the two types of resources and the three types of costs are connected with additive function, or

$$\Omega_L = f\left(\frac{M_L, R_L}{|W_L|g_L, px_L, |W_C|g_L \cup |W_C|c_L}\right) \quad (3.4)$$

if we do not assume such additive function, but allow that they can interact otherwise.¹⁹

This observation has several important implications for the relationship among resources, leader's strategy, structural-institutional environment, and regime outcomes.

First, it follows that the larger are the fiscal and political-administrative resources relative to combined costs of patronage, coercion, and public goods ($(M_L +$

¹⁶ This is largely a function of prior political regime and strength of the patronage networks that underpin it. In a more formal language, R_L is a proxy to a vector of variables, including the lagged dependent variable – political regime.

¹⁷ 'Costs' are defined broadly and not necessarily in monetary terms.

¹⁸ Subsequently, I use a quadratic symbol 'U' to refer to 'OR'.

¹⁹ This is an important observation to be picked up in later discussion.

$R_L)/(|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$), the more is the leader able to meet these costs.²⁰ Therefore, he will not need to incorporate the challenger into the winning coalition, make policy concessions, or allow economic or political liberalization. The likely result would be that the leader will preserve unlimited autocracy. Conversely, the smaller the ratio of resources to costs, the less the leader is able to tap resources for patronage, coercion, and public goods provision. In such case, the leader may need to incorporate the challenger into the winning coalition, make policy concessions, or allow economic or political liberalization, depending on the strengths and characteristics of the challenger. As a result, the leader is less likely to retain full autocracy²¹. This supports the contention that higher revenues, particularly from non-tax revenues – for the reasons explained below, – help autocrats entrench their power (Gellner and Waterbury 1977). But, importantly, it also suggests that the ratio of resources to costs should be taken account of, i.e. the *relativity* of resources to costs is imperative as well.

Fiscal resources are the sum of official and unofficial tax and non-tax revenues accruing to the ruling elite and include the key exogenous source of revenue – natural resource endowment (on endogenous oil rents, see Dunning 2010). Several reasons predispose the leader to concentrate on generating nontax revenues, particularly revenues from realization of oil and minerals, if the country is endowed with such resources. First, economic rents from realization of oil and minerals are on average higher than normal rates of return in other sectors (Mikesell 1997; Sachs and Warner 2001). Second, if in the pre-independence period taxes on domestic producers and population were low, increasing taxes from domestic constituencies can be socially and politically destabilizing. Third, as tax revenues can assume accountability to the party from which the revenues are levied, the ruling elite has an incentive to rely on nontax revenues, such as natural resource rents or lax foreign grants that accrue directly to government coffers bypassing the population. Finally, natural resource revenues, particularly from oil are more attractive than foreign aid since they rarely involve accountability to any party, while the latter comes with ‘strings attached’, however lax those ‘strings’ may be. *Therefore, the higher are the oil revenues relative to costs of patronage, public goods, and coercion, the higher is the likelihood that the leader will retain his autocratic control.*

²⁰ If the ratio $(M_L + R_L)/(|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$ is more than 1, i.e. $(M_L + R_L) > (|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$.

²¹ If $(M_L + R_L)/(|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$ is less than 1, i.e. $(M_L + R_L) < (|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$.

The second implication of the above relationship between resources and costs is that if the fiscal resources surpass the fiscal costs ($M_L > (|W_L|g_L + px_L + (|W_C|g_L \cup |W_C|c_L))$), the larger is the ratio of fiscal resources to combined fiscal costs of patronage, coercion, and public goods, the larger is the *surplus* the leader can retain. Such surplus is given by $M_L - |W_L|g_L - px_L - (|W_C|g_L \cup |W_C|c_L)$. This surplus can be the leader's key source of enrichment and form a cushion against present or future challenge. Therefore, the leader is interested in increasing this ratio of fiscal resources to fiscal costs whenever possible. This is achieved either when fiscal resources increase, the costs of patronage, coercion, or public goods decrease, or both of these changes happen at the same time. Is this possible and if yes, then how? The answer to this question leads to the third implication of the above relationship.

The third implication follows from the fact that the costs of patronage, coercion, and public goods as well as the amount of natural resources depend on structural and institutional factors that are, at least initially, largely outside the leader's control. These factors include pre-existing political institutions, ethno-linguistic fractionalization, regional cleavages, etc. In particular, the costs of patronage, coercion, and public goods are likely to be positively related to the number, size, geographic concentration, external support, and political and economic mobility of the actual or potential challenger groups in the selectorate and disenfranchised part of the population from which distributive and redistributive pressures emanate. These groups can be regional networks, ethnic minorities, or political blocs formed as a result of previous leadership changes or democratic experience. *Therefore, the specific combination of the policies to maintain the current regime or strengthen it will depend not only on the resources at the leader's disposal, but also on structural and institutional factors that define the costs of patronage, coercion, and public goods provision.*

In the short run, what the incumbent leader can affect is how he chooses to deploy its resources, given its political, economic, and social environment. In subsequent periods, choices made previously and changes in structural-institutional environment, including endogenous changes fostered by the ruling elite, can engender path dependence, presenting the key actors with a different environment and a different set of choices. This provides an answer to the above question on whether changes in fiscal resources and costs of patronage, coercion, or public goods provision are possible and how. Such changes are largely exogenous (e.g., demographic trends or migration), as the above analysis shows, but over time can be partly endogenous as the leader can direct the state's resources to not only soothe immediate pressures, but also weaken these pressures in the future (e.g., through forced migration). In other words, the leader

is likely to use his resources strategically so as to decrease the costs of patronage, coercion, and public goods in future as much as possible, thereby increasing his surplus.

The fourth implication follows from the previous point: *different combinations of structural and institutional factors, including the characteristics of challenger groups, are likely to entail different combinations of patronage, coercion, and public goods provision.* For example, if coercion is prohibitively costly while patronage and public goods provision are relatively cheap, then the leader is likely to pursue a combination of patronage and public goods with a relatively small amount of coercion. If, on the other hand, coercion is feasible and does not entail much cost in comparison to provision of private and public goods, then the leader is likely to pursue oppressive policies. Depending on these varying costs relative to fiscal resources, the incumbent leader will respond differently to distributive and redistributive pressures. In other words, his strategy will depend on not only the relative size of revenues over costs and ‘lump sum’ of costs, but also (a) the characteristics of potential or actual challenger groups and (b) how these costs of patronage, coercion and public goods relate to one another.

The above discussion highlights four important issues neglected in the resource curse literature. First, since structural and institutional conditions vary from country to country, the costs of patronage, public goods, and coercion are likely to be different in different contexts; hence different regime survival strategies and possibly different regime outcomes. While certain causal mechanisms might be triggered by oil wealth’s interaction with key structural and institutional factors in some cases, they might remain ‘mute’ in others. If that is the case – and establishing this is one of the objectives of this study – then cross-national large-N studies of causal mechanisms would be probably misled if they assume that all causal mechanisms linking oil wealth to regime outcomes are at work in each case.

Furthermore, different causal mechanisms might be treated separately for the sake of analytical clarity, but in reality they might be influencing one another, if not interacting in more complex ways.

In addition, it is plausible that with the same or even smaller amount of oil wealth a leader in one country can attain similar or stronger autocratic outcome than an autocratic leader in another country, if he faces a less recalcitrant structural and institutional environment. This shows that the absolute size of oil revenues might not be the best predictor of regime outcome.

Finally, it highlights the dynamic, inter-temporal nature of the problem – different combinations of structural and institutional variables can have different effects on the choice of strategy and regime outcome not only across different cases, but also

across different time periods within the same case. Therefore, possible path dependences and feedback loops should be taken into account.

The next question is what are the causal mechanisms that potentially transmit oil wealth into sustained autocracy? In particular, what are the specific forms that patronage, coercion and public goods provision can take?

3.2.4. Causal mechanisms

The leader's strategy is likely to be a combination of several options to address distributive and redistributive demands of challenger groups. The first relates to taxation. Drawing on the insights of the earlier literature on the role played by taxation in the emergence of Western democracies (Tilly and Ardant 1975), most *rentier-state* scholars agree that in resource-rich countries the crucial link between taxation and representation is almost absent since ruling elites do not need to tax their citizens heavily as they derive large amounts of natural resource revenues; therefore, they escape the demand for accountability, which usually comes with taxation (Luciani 1987, Vandewalle 1987; Ross 2001, 2004). In sum, the larger are the natural resource rents, the less the leader will need to tax and the less accountable he will grow over time.

However, the above model suggests three modifications to the hypothesis on the role of taxation as an intervening variable between oil wealth and political regime. First, taxation is likely to be influenced not only by the amount of non-tax revenues (apart from its purely economic objectives), but also by those structural and institutional factors that define the costs of patronage, public goods and coercion in a specific case. Second, since different ingredients of the leader's strategy are not determined independently, but influence one another, it follows that the level of taxation by itself might matter much less than taxation in percentage of government services, i.e. public spending (as suggested by Ross (2009)). Third, it is plausible that the line separating formal from informal taxation can be blurry and depending on context, taxation can be used for purposes other than raising revenue and re-pricing. In fact, taxation can be used as a tool of coercion, as the case studies below will demonstrate.

Second, the ruling elite can provide patronage that can take two forms, depending on the object of such patronage. First, the incumbent can disperse available rents through high social spending. It is well documented that high oil revenues have allowed governments in oil-rich countries to spend more on patronage and socially popular projects, thus retarding popular pressures for democratization (Vandewalle 1998, Ross 2001a, Lam and Wantchekon 2003). The advantage of this option is that it is likely to soothe general social tensions. Such policy can also be "reversible" – once the

resources are spent, the leader can extract them back from the society selectively through official taxes or, more likely, corruption (see, for example, Olson 2000). However, it might not always be attractive for the ruling elites as it might also mean a loss of resources for them. In addition, since it involves dispersal of limited resources among a large group of people rather than among winning coalition members, it might fail to placate the latter or exasperate it. Therefore, another and perhaps prevalent form of patronage is selective spending on the winning coalition and, if need be, challengers. Such spending can take the form of preferential treatment schemes, pork barrel projects, etc. In general, the leader's distribution of oil rents will vary depending on their assessment of threat from challengers as well as the needs of their winning coalition (Bueno de Mesquita et al. 2003).

Third, the leader can use coercion. The academic record on repression in oil-rich countries is mixed. Many rentier-state scholars have alleged that repression is one of the causal mechanisms linking oil wealth to autocracy, particularly in the Middle East and Africa (Skocpol 1982; Clark 1997; Bellin 2004). While Ross (2001) finds that cross-nationally oil-rich dictatorships are on average more repressive than other non-democratic regimes, Ross (2009) finds little support for this hypothesis using a different dataset.

The present study suggests that distinctions should be made between coercive (or repressive) capacity and actual repression and between different types of coercion, and implications of these distinctions. First, leaders in oil-rich autocracies may not repress their populations significantly more than leaders in oil-poor autocracies, in line with Ross' (2009) finding, but theoretically and empirically they have a stronger coercive capacity due to their oil wealth. They are also likely to have more loyal and therefore more cohesive security apparatus, since top security officials as members of the winning coalition are likely to have higher vested interests in elite and regime continuity than their counterparts in non-rich autocracies. Other things equal, the ratio of resources to the costs of repression is higher in oil-rich than non-rich countries, which means that for leaders in oil-rich countries repression is 'cheaper.' With such capacity there might be no need to repress as it is likely to *deter* dissent because the threat is more credible and can be overwhelming if applied (see Bates et al. 1998). Skocpol (1979), for example, argues that if a state's repressive apparatus remains coherent and effective, it is likely to dampen even strongest popular pressures for change. There is reason to believe that higher oil rents are likely to promote such coherence and effectiveness, as case studies will demonstrate. Second, the types of repression captured by cross-national datasets, such as Cingranelli-Richards Human Rights Dataset (Cingranelli and Richards 2008)

used by Ross (2009), simply does not represent the whole arsenal of inventive coercion tools used by autocratic leaders.

Note that the above analysis does not deny that repression can be endogenous to political regime, as suggested by Ross (2009). In other words, autocrats can be repressive because they are autocrats. However, the model above and case studies below show that coercive capacity and coercion can be a contributor to the entrenchment of autocracy.

The advantage of coercion is clear: if it is successful, the leader retains control over political and economic resources without sharing them with challengers. Coercion can be costly, however. First, as noted above, it requires large investment into coercive capacity. Second, the challenge might emanate from multiple groups that are relatively large, mobile, and connected to an influential actor outside the country, such as a kin state in the case of ethnic minorities. Coercion of such groups can result in political instability, violent conflict, secession, costly sanctions, or ultimately deposition of the incumbent. Coercion can also be costly in terms of undermining “the institutional integrity of the security apparatus, international support, and domestic legitimacy” (Bellin 2004:146). Finally, coercion can result in unintended consequences that could be difficult, if possible, for the leader to manage.

Fourth, the incumbent leader can co-opt challengers by providing them with public office. If the actual or potential challenger is from the selectorate, co-opting him and his winning coalition into high or medium-level public office is an option (Alesina, Baqir, and Easterly 1998; Auty 2001). If the actual or potential challenger is a larger group from within disenfranchised part of the population, sustaining general government employment at high levels is an option. Provision of public office can be a preferable alternative for ruling elites for three reasons: it is credible, selective and reversible (Robinson and Verdier 2003). Appointment to a public office creates vested interests in continuation of the current regime on the side of the appointee. It is also selectively applied to reward loyalty and can be withdrawn at the incumbent leader’s discretion as a form of punishment for disloyalty (Bates 1981; Robinson and Verdier 2003). Finally, it can relieve the leader from the necessity to offer considerable financial rewards where he can instead provide access to ‘contrived rents’ rather than natural resource rents (for a good discussion of ‘contrived rents’ Auty and De Soysa 2005). Still, including the challengers into government increases the size of the winning coalition, which ultimately means a decrease in the amount of rents available to the winning coalition. The leader, however, is interested in minimum-winning coalition (Riker 1962; Bueno de Mesquita et al. 2003). Therefore, the leader is likely to increase the size of the winning coalition at the time of crises, but decrease it once a crisis subsides.

Finally, if available revenues are low to cover the costs of patronage and coercion, the incumbent leader can be compelled to provide policy concessions to challengers or allow economic or political liberalization. Models of co-optation that either do not specify instruments used by dictators or assume that instruments take only financial form can be inadequate for explaining the presence of democratic institutions in autocracies, such as elections, legislatures and parties (Gandhi and Przeworski 2006). Gandhi and Przeworski (2006) distinguish between policy concessions and the sharing of rents and show that a combination of these tools will depend on dictator's need for cooperation and the strength of the opposition. They also find that oil wealth decreases policy concessions. A more radical form of concession is economic liberalization. Autocrats can be compelled to launch the program of partial economic liberalization to simultaneously soothe immediate tensions and help stimulate the economy, thereby improving the tax base and raising government revenues. However, as economic liberalization is likely to create autonomous or semi-autonomous economic actors who can in the future pose a political challenge to the ruling elite (Moore 1967; Dahl 1997), the latter is likely to resist economic liberalization as much as possible. Finally, the least attractive option to the leader is political liberalization – an increase in the sizes of both the selectorate and the winning coalition. From the standpoint of the leader and his winning coalition, both increases dilute resources in such a way as to leave less for the leader and his winning coalition and circumscribe the leader's and his winning coalition's political power.

3.3. Predictions and implications

In the category of cases described above, several regime outcomes are likely in the short-to-medium term, ranging from unlimited autocracy to hybrid regime – the type of political regime that combines democratic and autocratic elements (Diamond 2002). If the combined costs of patronage, coercion and public goods provision are relatively small and resources at the leader's disposal are higher than these costs, the incumbent leader will likely maintain the required level of patronage, coercion and public goods and retain full autocracy. If the costs are somewhat larger than revenues, the leader will be forced to make some cuts in patronage, investment in coercive capacity, and public goods provision and grant policy concessions to challengers or allow a small degree of economic liberalization; the outcome will likely be a moderate or mild autocracy. If the costs are significantly larger than revenues, the leader will not be able to sustain the required level of patronage, coercion and public goods, and will be

compelled to allow greater degree of policy concessions, economic liberalization and some political liberalization; a hybrid regime will likely emerge as an outcome.

However, the relationship between fiscal resources and regime outcomes might not necessarily be static. As the above analysis suggests, fiscal resources are likely to interact with such structural and institutional factors as the pre-existing patron-client networks that influence the leader's political-administrative resources or ethno-linguistic fractionalization. Since these factors can change over time, either exogenously or endogenously, their interaction with oil wealth is likely to produce different outcomes across different cases. Some factors might magnify the oil's impact on regime while others might constrain it.

At the same time, such analysis should take account of possible path dependence as it has two implications. First, previous policies and institutions, once established, can yield increasing returns in subsequent periods. For instance, once a strong autocracy wipes out much of dissent potential, the level of autocracy would not necessarily fluctuate with the amount of oil revenues; for example, it would not necessarily decrease when oil revenues fall. Second, and related, periodization is important as dynamics of regime survival and outcomes can be different in different periods of the polity's life.

What structural and institutional variables interact with oil wealth in producing a specific combination of policies and ultimately affecting the political regime will likely vary across cases. From the multitude of potential factors, several can be more important than others. These can be identified by deductive reasoning, but more fruitfully by inductive research as the below discussion of methodology will demonstrate.

Three examples of such factors are worth noting for illustration. First, the above model implies that ethnic diversity might not necessarily impede democratization or lead to more autocratic outcomes as suggested by some scholars (Lijphart 1977; Dahl 1971; Rabushka and Shepsle 1972; Welsh 1993). Fish and Brooks (2004) find that ethnic diversity (measured as fractionalization) is neither statistically nor substantively significant in explaining or predicting political regime outcomes. However, the generic model above concurs with other studies, which suggest that diversity may have different effects under different conditions (Collier 2001; Hughes and Sasse 2001; Beissinger 2008). Specifically, it suggests that ethnic diversity can, under certain circumstances, constrain autocracy by increasing the costs of repression and patronage and channelling oil revenues to uses that, while conducive to political stability, may not be favourable for centralization of political power.

As another example, the geography of oil and gas production – a factor largely ignored in the resource curse literature – can also be important. Hoffman (2000) proposes that this variable may be one of the factors explaining varying levels of state capacity between Azerbaijan and Kazakhstan. The above model suggests that it can also be important for political regime outcomes as the relatively diffuse geography of oil and gas production may act as a constraint on autocratic leaders, for example, through increasing transaction costs of centralization and entailing a certain degree of fiscal decentralization.

Finally, the influence of hegemonic neighbours, such as Russia, can be an important factor for the development and survival of either certain ruling elites or political regimes.

3.4. Alternative explanations

There may be many alternative explanations for the variation in political regime outcomes among oil-rich autocracies. This study will focus on two groups of alternative explanations: one related to the general pool of cases of oil-rich autocracies and the other, to the specific empirical cases used to test the above model. I provide a brief outline of the first group of alternative explanations below, leaving the description of the second group to the next section on research design.

The first group consists of four alternative explanations proposed or implied by several studies of the resource curse. The first one attributes the variation in autocratic outcomes in oil-rich countries to factors unrelated to oil. One version of this explanation is that the correlation between oil wealth and autocracy can be spurious or endogenous (Haber 2006). Another version is that cross-nationally oil wealth may have a positive or no effect on political regimes as well as the negative effect (Haber and Menaldo 2011). The third version is that this effect can be positive, not negative (Herb 2005).

The second alternative explanation in this group is that autocratic outcomes are largely the function of the amount of oil wealth. As Ross (2001) argues, “barrel for barrel, oil harms democracy more in oil-poor countries than in oil-rich ones” (343). This would imply that, irrespective of conditions, the amount of oil wealth will be the best predictor of autocratic outcomes in oil-rich autocracies.

The third alternative explanation in this category is that five causal mechanisms proposed in the *rentier state* theory – taxation, spending, group formation, repression, and modernization – are all triggered in each case and vary according to the amount of oil wealth. A related fourth alternative explanation would attribute the role of causal

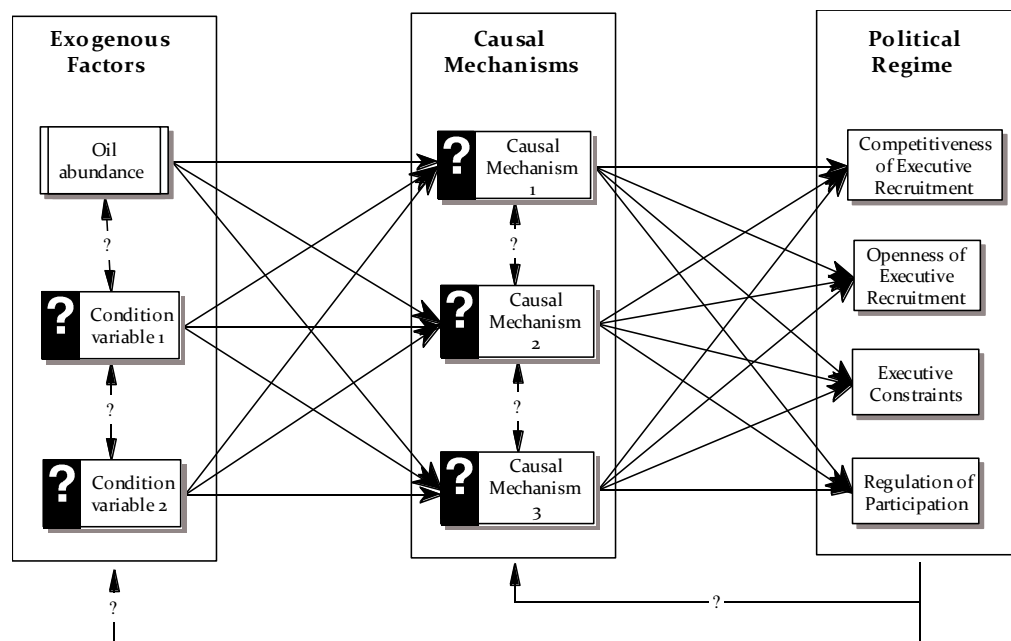
mechanism to the lack of modernization caused by oil wealth rather than to taxation, patronage, or coercion. The case selection procedure described below helps to control for the effect of other potential confounders, such as asset specificity (Boix 2003), corruption (Fish 2005), inequality (Dunning 2008), and foreign support (Ross 2009).

3.5. Research design

3.5.1. Goals

The main goal of this study is to contribute to our understanding of the variation in regime outcomes in oil-rich autocracies. As the above model showed, such explanation should pinpoint exogenous factors that interact with oil in affecting the causal mechanisms that are believed to link political regime with oil abundance and examine the effect on the regime of each of these causal mechanisms. As such, this study is both exploratory – in that it searches for the ‘conditioning factors’ that interact with oil in affecting regime outcomes – and explanatory – in that it aims to understand how the causality, if any, works. Similarly, this study is as much an exercise in theory building as in theory testing. It aims to undertake a rigorous investigation of the *rentier state* theory, but also to formulate a refined explanation that accounts for the conditional effect of oil on political regime.

Figure 3-2. Causal Model



3.5.2. Research strategy

While a number of causal mechanisms have been proposed in the literature on the resource curse, the same is not true for ‘conditioning factors.’ Given potential

multitude of possible factors that arises from country and time specificities, a purely deductive reasoning for identifying these factors *a priori* would be neither effective, nor efficient. This calls for a largely inductive approach. In addition, an optimal research design for answering this study's research questions should allow a rigorous evaluation of the effect of causal mechanisms on regime outcomes as well. There are two alternative research strategies for this. The first strategy would be to undertake a cross-sectional time-series quantitative analysis (CSTS) of the data on a large pool of cases that would include interaction terms (e.g., oil*country size, oil*ethnolinguistic fractionalization). The other would start with a small-N qualitative study that examines a set of carefully selected similar cases at a more proximate distance using both within-case process-tracing and across-case controlled comparison.²² Advantages and disadvantages of the two research strategies are outlined in Table 3-1.

Table 3-1. Advantages and Limitations of the Two Research Strategies

	<i>Advantage(s)</i>	<i>Disadvantage(s)</i>
<i>Strategy 1 – large-N cross-national time-series quantitative inquiry</i>	<ul style="list-style-type: none"> the possibility of detecting key conditions (variables) that affect autocracy independently or in interaction with oil, using a global sample – high external validity for a variety of relationships found; a high probability of measuring the causal <i>effects</i> of all detected exogenous factors on hypothesized causal mechanisms; the possibility of assessing the effects of detected exogenous factors on regime outcomes. 	<ul style="list-style-type: none"> interaction terms can be too complex to handle with regression analysis and require more observations than currently available data permits; strong unit homogeneity assumptions, which are possibly untestable; the difficulty in identifying all relevant variables to be included in the analysis; multitude of plausible causal models given the difficulty in tracing causal mechanisms; faulty data or lack of necessary data for some variables;
<i>Strategy 2 – small-N qualitative inquiry, most similar systems design</i>	<ul style="list-style-type: none"> a high probability of correctly identifying some causal factors and correctly specifying the causal models high conceptual validity strong procedures for fostering new hypotheses higher probability of thorough assessment of the causal <i>mechanisms</i> that can then be tested in large-N higher capacity to address causal complexity (related to point 1) 	<ul style="list-style-type: none"> the difficulty in generalizing the findings – the findings might be relevant only to one cultural/geographic region; possibility of pinpointing only a fraction of relevant variables; estimating the “causal <i>effects</i>” of those variables can be problematic access to relevant data can be difficult.

²² Van Evera (1997) provides a useful summary.

The second strategy is a better choice than the first one for answering this study's research questions. A large-N cross-national time-series quantitative design would certainly increase the external validity of findings, enable detecting key variables that affect autocracy independently or in interaction with oil, and allow measuring the causal *effects* of these exogenous factors (Freedman, Pisani, and Purves 2007; Berk 2004; Brambor, Clark, and Golder 2006). However, such design would have several problems. First, it would require many observations to run a meaningful analysis of interactions with sufficient degrees of freedom. Neither the universe of cases (the number of oil-rich countries), nor the available quantitative data on them might be sufficient for this. Second, regressions could produce a multitude of plausible causal models due to the difficulty in tracing causal mechanisms and fail to deal with endogeneity given the potentially complex causality at work²³ (Campbell 1975; Achen 2002; Brady, Collier, and Seawright 2004; Munck 2004; George and Bennett 2005; Freedman 2010). Third, such cross-national regression analysis would require a set of strong assumptions, particularly about homogeneity of countries included in the dataset and the structure of relationships among variables. Although unit homogeneity assumptions are sometimes testable, sometimes they are either untestable, or unsupported by data (Freedman 1999; Berk 2004; Collier, Sekhon, and Stark 2010; Freedman 2010). In short, the cases compared might not be analytically equivalent (Brady and Collier 2004). Similarly, the assumption of linearity and additiveness that comes with many regression techniques can be inappropriate (George and Bennett 2005: 212). In addition, given the unexplored state of this research area, a large-N design would necessarily stumble upon the difficulty in identifying *ex ante* all relevant variables to be included in the analysis. Finally, faulty data or lack of necessary data for some variables would inhibit such analysis.

On the other hand, a small-N comparative process-tracing inquiry into a set of carefully selected similar cases would have several advantages. It would ensure a higher degree of unit homogeneity, increase the probability of correctly identifying causal variables and specifying causal models, ensure high conceptual validity, provide strong procedures for fostering new hypotheses, and allow tracing and assessing causal *mechanisms* that can then be tested in large-N (Campbell 1975; Ragin 1987; Van Evera 1997; Hall 2003; Mahoney and Rueschemeyer 2003; Brady and Collier 2004; George and

²³ Instrumental variables estimation can potentially be useful (for a relevant example, see Ramsay 2006). However, finding an appropriate exogenous “non-weak” instrument is difficult. For problems associated with such estimation, see Bound, Jaeger, and Baker (1995).

Bennett 2005). Note that such design is a departure from a largely correlational view of comparative method (e.g., Przeworski and Teune 1970; Lijphart 1971) as it emphasizes systematic within-case process tracing and not just comparison of the values of dependent and independent variables. Apart from its other advantages outlined above, process tracing can alleviate the indeterminacy problem by generating process-tracing observations (King, Keohane, and Verba 1994:119-120, cited in George and Bennett 2005: 29).

The small-N qualitative design is not without limitations too. The two key ones are the problem of case selection and the related difficulty in generalizing the findings from the small-N. In other words, such study's findings might not travel far outside the examined cases (Mahoney and Rueschemeyer 2003; Brady and Collier 2004). Similarly, if we assume there are several factors that interact with oil in affecting regime outcomes globally, a small-N design would probably pinpoint only a fraction of relevant variables. Furthermore, estimating the "causal *effects*" of those variables in comparative perspective can be problematic (George and Bennett 2005; Bennett and Elman 2006). Finally, given the nature of the topic, access to critical data might be limited, thus creating loopholes in the process-tracing framework and crippling process-tracing.

Still, such design holds a higher promise of accounting for causal complexity convincingly than does a large-N alternative. If the cases are selected carefully – as this study does, the findings can be applied to other cases in the same geographic/socio-cultural domain and can also form the basis for a more nuanced large-N, thus avoiding data mining. In general, this study prioritizes internal validity based on the belief that understanding the ultimate – and not just average effects – of oil on political institutions is currently both theoretically and practically more relevant.

The study's internal and external validity could certainly be enhanced by combining the two strategies - the large-N CSTS can be followed by a small-N study that investigates the internal validity of (some of) the findings at a proximate distance, and small-N can be followed by a large-N CSTS with interaction terms in order to test the generality of the findings of the small-N. However, two reasons warrant focusing on one strategy. First, if we choose to do the large-N first and follow with a small-N, if the former is misguided, the latter might be redundant as it would be bound to test only a fraction of the findings of the large-N. Therefore, conducting the small-N first and taking its findings to a larger cross-national time-series test would be a more prudent strategy. However, and second, since a rigorous small-N would be a time-consuming endeavour in itself given the unexplored nature of this research terrain and the nature of

small-N qualitative inquiry, I leave the large-N assessment of this study's findings for future work.

3.5.3. Case selection

In terms of case selection, I first limit the inquiry to one type of natural resource – hydrocarbons – in order to increase unit homogeneity among the cases to be studied. Some studies suggest that different types of natural resources have different political, economic, and social effects (Shafer 1994; Karl 1997; Ross 2001). The choice of oil and gas resources is also warranted given the higher occurrence and higher intractability of resource curse among oil-rich developing countries.

The universe of oil-producing autocracies between 1965 and 2010 consists of around 30 cases. The second task is to identify a small number of 'typical' cases out of this population of cases that are as similar as possible in background characteristics, the degree of oil abundance and the degree of oil dependence, but display some variation in the level of autocracy. The most promising strategy is to select cases that lie in the same geographic and socio-cultural region. This enables in-depth systematic within-case and cross-case comparison using process-tracing with minimal conceptual stretching.

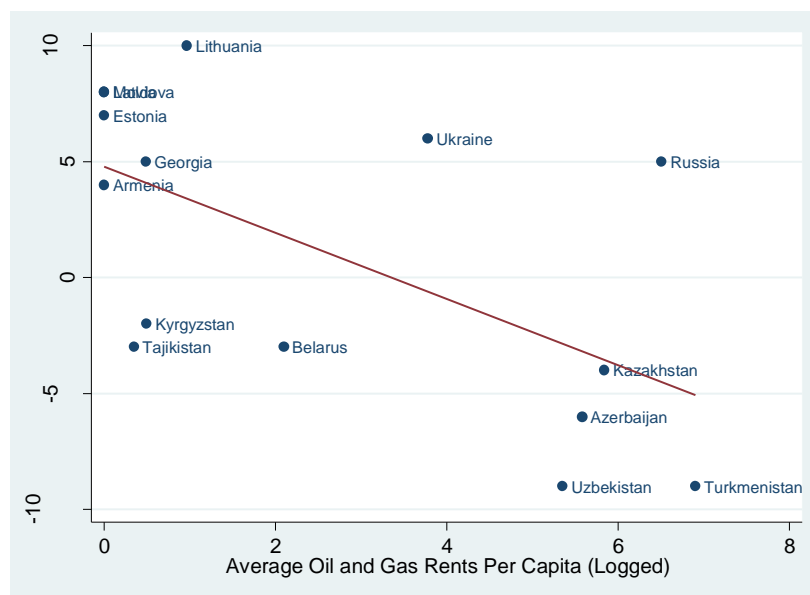
The dissolution of the Soviet Union and the emergence of its successor states enables one of the most productive inquiries into sources of differences in political institutions: while the union republics were politically, economically, and socially similar under the soviet regime, they stepped onto independent trajectories in a matter of one year. In addition, only after gaining independence the governments in these countries assumed full control over their economies, including oil sectors. Five of the fifteen republics of the former Soviet Union (FSU) are major oil and gas producers and exporters – Azerbaijan, Kazakhstan, Russia, Turkmenistan, and Uzbekistan. Despite the initial opening of political space that followed the collapse, political regimes in these countries became increasingly autocratic. As such, they represent typical cases of oil-rich autocracies. At the same time, they have differed in their level of autocracy throughout the post-Soviet period (Figure 3-3).

In order to reduce variation in potential major causal factors that can be correlated with autocracy, we need to further exclude the cases that exhibit significantly different values on those variables. The goal is to compare cases that are analytically equivalent²⁴. In statistical parlance, this is a strategy to increase unit homogeneity. According to the regime studies literature, such factors include colonial status, predominant religion, socioeconomic development, poverty levels, ethnic diversity, and

²⁴ See Brady et al. (2004: 11).

export dependence, among others. Such exclusion, however, should allow retaining variation in the dependent variable (autocracy).

Figure 3-3. Oil and Democracy in the Former Soviet Union, 1991-2006



Source: Data from Ross (2009) and Marshall, Gurr, and Jaggers (2010)

Notes: Democracy level is the fifteen-year average of a Polity score with -10=unlimited autocracy and 10=full democracy; oil and gas income per capita also include transportation rents.

I exclude Russia from the small-N sample mainly for three reasons: its former colonial power status, predominantly Christian population, and high level of socioeconomic development at independence. These three features make it substantively different from the remaining four countries, which share similar historical and cultural as well as socioeconomic and institutional legacies (de Melo et al. 2001; World Bank 2009). All four countries were colonized by the Russian Empire in the 19th century, were incorporated in and spent 71 years under the Soviet Union, are predominantly Muslim, part of the larger Turkic-speaking realm, were at roughly similar levels of socioeconomic development in 1991, had similarly strong client-patron networks that permeated the political systems during the Soviet Union, and were similarly distant from democratic nations in early 1990s (de Melo et al. 2001; Allworth 1967; Furman 2001, 2004; Hunter 1996; Roy 2000).

I also exclude Uzbekistan from the small-N sample. Several related reasons warrant this choice. First, Uzbekistan's level of dependence on oil and gas resources is not pronounced and is substantially smaller than in the other three countries. Second, at independence and throughout the post-Soviet period, its dependence on *exports* has been much less pronounced (Alam and Banerji 2000). Third, it has been considerably

poorer - as measured by GDP per capita – than the other three countries. Fourth, its level of urbanization is relatively lower (de Melo et al. 2001). Also, although its level of ethnic diversity is smaller than that of Kazakhstan (and this draws it closer to Azerbaijan and Turkmenistan), it is still high (USSR State Statistics Committee 1984, 1992; Alesina et al. 2003; Fearon 2003). This necessitates a choice between Uzbekistan and Kazakhstan, in which the latter is a better candidate to be retained due to the previous three reasons. Finally, as Uzbekistan exhibits the same level of autocracy throughout the post-Soviet period as Turkmenistan (Marshall, Gurr, and Jaggers 2010), its exclusion economizes the case study while allowing retaining some variation in the dependent variable (autocracy). The three remaining countries – Azerbaijan, Kazakhstan, and Turkmenistan – at independence shared many political, economic and social features. The question then is why, despite so many similarities, these oil-rich post-communist states have throughout the post-Soviet period differed both in the level and type of autocracy?

In order to be able to distinguish between the experiences of oil-rich countries and those of their poorer neighbours, there is a need to include at least one case of a oil-poor country that is as similar to the oil-rich set cases as possible. Such research design allows simultaneously comparing causal mechanisms and conditions affecting them among oil-rich countries and between oil-rich and oil-poor. First, I exclude the Baltic states, Belarus, Georgia, and Armenia due to their (much) higher urbanization, (significantly) higher income, and higher industrialization at the time of independence, and their significantly small share of Muslim population (de Melo et al. 2001). The duration of the Baltic states' exposure to the central planning was also shorter (51 years). I exclude Moldova due to its significantly small share of Muslim population, its close location to Europe, and the duration of time it spent under soviet planning (51 years).

Of the remaining two candidates - Tajikistan and Kyrgyzstan – the latter is more similar to the cases in the oil-rich set than the former, especially in terms of urbanization level, poverty, and government size at independence (de Melo et al. 2001; World Bank 2009). The Kyrgyz also share many cultural traits with Kazakhs, Turkmen, and partly Azerbaijanis, including Turkic nomadic socioeconomic legacy. In addition, Kyrgyzstan shared similar level of Russification with Kazakhstan. Finally, Kyrgyzstan is closer to Azerbaijan, Kazakhstan and Turkmenistan in terms of Islamic traditions in that they are more secular whereas in Tajikistan Islam survived in the countryside to a greater extent than elsewhere in Central Asia.

3.5.4. Variables and Data

I ask three main questions to the selected cases:

1. Did oil abundance affect political regime in each of the oil-rich cases?
2. Were these causal mechanisms that linked oil abundance to political regime similar or different across the three oil-rich cases and throughout the post-Soviet period?
3. Which context variables affected each causal mechanism throughout the post-Soviet period?

Answering these questions, particularly for tracing processes, requires a breadth of qualitative and quantitative information. In particular, it requires two categories of data. The first category are data on four sets of variables for each case - political regime, hypothesized causal mechanisms, oil abundance, and other exogenous or context variables. The second are causal-process observation data that connect these variables. Before collecting these data, however, we need to operationalize the variables.

The dependent variable of this study is autocracy. Specifically, I examine both the degree of autocracy and its robustness (i.e. regime stability). Partly borrowing from Polity IV project (Marshall, Gurr, and Jaggers 2010), I operationalize political regime as a political institution that can be characterized along four dimensions: competitiveness of executive recruitment, openness of executive recruitment, executive constraints, and regulation of political participation. I exclude 'competitiveness of political participation' variable (*parcomp* variable) as its operationalization overlaps with my operationalization of 'coercion,' where I include it. Although my operationalization borrows from Polity IV, in several instances this study differs from the latter, based on original data, in the actual measurement of political regimes in the examined cases.

The causal mechanisms investigated or probed in this study are derived from the resource curse literature, summarized and tested particularly well in Ross (2001). I focus my analysis on five causal mechanisms: taxation, government spending, government employment and appointments, coercion, and modernization. However, I keep their operational definitions broader than in cross-national statistical tests as one of the objectives is to find out what specific aspects of these causal mechanisms matter, if at all. For example, does overall government spending specific types of spending matter for regime outcomes? Should we treat coercion as consisting of actual repression only, or should we conceive it more broadly as inclusive of coercive capacity?

Possible effects of other proposed causal mechanisms are treated in a twofold way. First, my case selection allows controlling for asset specificity (Boix 2003), corruption (Fish 2005), inequality (Dunning 2008), and foreign support (Ross 2009) because all three selected oil-rich countries have not differed significantly on these dimensions. However, although the process-tracing approach can hardly measure the

across-case differences on these causal mechanisms (where none may exist), it can make it possible to detect *whether* these causal mechanisms took place and were in fact linked to political regime outcomes at all. For example, have Kazakhstan's elite's oil assets been "fixed" (as implied by Boix 2003) and did this have an effect on the autocracy in this country?

Second, there can be other causal mechanisms or channels through which either oil or other exogenous variables affect political regime. However, I adopt a pragmatic approach suggested by George and Bennett (2005) and limit my inquiry to testing alternative hypotheses on causal mechanisms rather "than worrying over the infinite number of potential theories that lack any proponent" (30). Besides, the qualitative methodology and specific methods of data collection of this study allow keeping an eye on such channels; so, if such omitted channels are too visible to ignore, they are likely to be spotted.

The main independent variable of this study is oil and gas wealth (henceforth referred to simply as "oil"). As Chapter 2 showed, the extant literature is rich with different measures of oil abundance and that these different measures can lead to different research results. Therefore, I operationalize this variable in mainly three ways – oil and gas rents per capita, oil and gas production to GDP, and oil and gas reserves. Accordingly, I measure the effect of each on causal mechanisms separately. At the same time, as the theoretical framework suggested, the oil abundance may not be a single measure, but rather a composite of several elements. In addition, it can have properties that are not easily measured by quantitative data. For example, oil might have strategic properties that can bring foreign support for the incumbent regime. Therefore, it is important to be wary of these different dimensions of oil wealth. As oil dependence, or in other words resource diversity, might also be important, I examine its implications as well.

While the dependent and independent variables and the causal mechanisms are derived from the existing literature on the resource curse, this is not the case for other independent variables, i.e. exogenous factors that may interact with oil in affecting the causal mechanisms and regime outcomes in the selected cases. Therefore, I proceed by inductively identifying potential causal factors that (a) differed across the four cases in the last years of the Soviet Union and immediately after its collapse or (b) did not differ, but could converge with factors that differed in affecting the causal mechanisms and the political regimes. Such analysis yields two groups of factors presented in Table 3-2. Table 3-4 presents a detailed outline of these variables and their values along with oil

wealth related variables during the last years of the Soviet Union or in the immediate aftermath of the Soviet collapse.

Table 3-2. Potential Causal Factors

<i>Different across cases</i>	<i>Similar across cases</i>
1. Prior political stability	10. Previous political regime
2. Geographic diffusion of oil and gas production	11. Development of state institutions
3. Country size	12. Salience of patron-client networks in politics
4. Degree of ethnic diversity	13. Democratic diffusion
5. Size and mobility of Russian minority	14. Economic inequality
6. Muslim population size	
7. Economic performance prior to 1991	
8. Modernization	
9. Leadership quality	

Then I bring these variables into a unified process tracing framework (UPTF), an analytical heuristic introduced in this study. It allows analyzing explanatory variables, causal mechanisms, and outcomes within a spread sheet framework, where each cell represents a link between the explanatory variable and an aspect of the causal mechanism or between the causal mechanism and outcome variable (Table 3-3). Each link is given by a causal-process observation testifying for the empirical validity of the causal relationship and the magnitude of change. Since periodization is important, as the above model suggested, I examine each case and compare it to others separately in four tentative periods – pre- and post-independence coalition formation, regime consolidation, ordinary times, and times of exogenous crises.²⁵ In each period, I analyze each causal mechanism using the UPTF, i.e. I examine the effect, if any, of all independent variables on different aspects of the causal mechanism and subsequently the dependent variable. In other words, one UPTF sheet is used for the analysis of each causal mechanism in each period. Such format allows comparing each case in each period to other cases and to itself in other periods.

The theoretical rationale for the relationship between each causal mechanism and the dependent variable ($Z_i \rightarrow Y$) is given by the *rentier state* theory and the resource curse literature. For the relationship between exogenous variables and causal mechanisms ($X_i \rightarrow Z_i$), I use existing theories and the theoretical model developed in the

²⁵ The following chapters follow this structure: each chapter looks at the four cases during their similar period, for example, regime consolidation.

previous sections to hypothesize through which channels such relationship can take place.

Table 3-3. Unified Process Tracing Framework

Independent variable, X_i	Theoretical rationales for link $X_i \rightarrow Z_i$			Change in the z_{ij} aspect of the causal mechanism Z_i			Theoretical rationales for link $Z_i \rightarrow Y$			Change in the y_i aspect of the dependent variable Y		
	TR_1	TR_2	TR_i	z_{i1}	z_{i2}	z_{ij}	TR_1	TR_2	TR_i	y_1	y_2	y_i
X_1	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ	Δ	Δ
X_2	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/co	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ	Δ	Δ
X_3	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/po	Δ/cpo	Δ/cpo	Δ	Δ	Δ
...	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ	Δ	Δ
X_i	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/cpo	Δ/po	Δ/cpo	Δ/cpo	Δ/cp	Δ	Δ	Δ

Δ – change; cpo – causal-process observation(s)

In theorizing about the channels through which independent variables can affect taxation, I draw on Levi (1988), who shows that ruling elites maximize fiscal resources subject to fiscal requirements and three constraints: their relative bargaining power, transaction costs, and discount rates. She defines relative bargaining power as a function of “the degree of control over coercive, economic, and political resources,” transaction costs as the costs of “negotiating an agreement on policy and the costs of implementing policy,” and elite discount rate as the “time horizon of a decision maker” – the more the leader values “the future relative to the present, the lower the discount rate” (Levi 1988: 2). I hypothesize that independent variables can affect taxation through these four ways: through affecting the ruling elite’s relative bargaining power against domestic opponents, transaction costs, elite discount rates, and fiscal requirements. For example, diffuse geography of oil and gas production might increase transaction costs for centralized taxation system and enable some degree of fiscal decentralization, which in turn can affect the degree of centralization of political power.

On determinants of spending, I draw on Roubini and Sachs (1989) and Neto and Borsani (2004) who suggest that government spending is affected by general government revenues, budget-electoral cycles and costs of providing public goods. I hypothesize that the independent variables identified before can affect the government

spending by influencing these variables. In addition, this relationship can be transmitted through two other variables: redistribute pressures and elite discount rates.

Public office appointments can be affected by several variables. Drawing on Robinson and Verdier (2003) and the theoretical model presented above, I conceptualize clientelistic public office appointment as a credible, selective and reversible way of redistributive politics. Therefore, I infer that the independent variables can affect public office appointments by influencing redistributive pressures. I further draw on the literature on minimum-winning political coalitions (Riker 1962; Bueno de Mesquita et al. 2003) in hypothesizing that the independent variables can have an effect on public office appointments via the optimal coalition size required to stay in office. Finally, independent variables can have an impact on public office appointments via ruling elite's relative bargaining power.

Finally, I draw on Davenport's (1995; 1996; 2007) work on political repression to theorize about the channels through which the independent variables may have an effect on coercion. I hypothesize that such relationship can be transmitted through three key variables: presence of political conflict, previous democracy, and costs of repression.

Table 3-4. Potential Causal Factors, detailed

<i>N</i>	<i>Variable</i>	<i>Measurement</i>	<i>Year</i>	<i>TU</i>	<i>KZ</i>	<i>AZ</i>	<i>KG</i>
1	Oil wealth	Natural gas production, billion cubic meters, 1989, BP	1989	81.4	6.1	10.0	
1	Oil wealth	Oil and gas rents per capita in 1989, Ross 2008	1989	2048	246	318	1
1	Oil wealth	Oil production, thousand barrels daily, 1989, BP	1989	121	536	268	
1	Oil wealth	Proved recoverable oil reserves (thousand million barrels), 1999	1999	0.5	25.0	1.2	
1	Oil wealth	Proved recoverable natural gas reserves (trillion cubic meters), 1999	1999	2.59	1.78	1.23	-
1	Resource diversity	Agricultural raw materials exports	1992	high	low	low	low
1	Resource diversity	Ores and metals exports (% of merchandise exports), 1996, WDI	1996	1.3	19.7	0.8	6.2
2	Prior political stability	Change in Leadership since 1989	1993	0	0	4	1
2	Prior political stability	Involvement in war	1991	0	0	1	0
3	Geographic diffusion of oil and gas production	Average distance from the capital to major oil and gas producing regions, km	1990	312	1900	0	-
4	Country size	Land area	1991	469,930	2,699,700	83,217	191,800
4	Country size	Population density (people per sq. km), 1992, WDI	1992	8.3	6.1	88.7	23.7
5	Ethnic diversity	Ethnic (frac), Alesina et al. 2002	1990	0.39	0.62	0.20	0.68
5	Ethnic diversity	Ethnic frac (early 1990s), Fearon 2003	1991	0.39	0.66	0.19	0.68
5	Ethnic diversity	Percentage of dominant ethnic group (1989), US Bureau of Census	1989	72	40	83	52
6	Size and mobility of Russian minority	Percent of Russians, 1989, US Bureau of Census	1989	9	38	6	21
7	Size of Muslim population	Muslim population, late 1980s, Treisman 2007	1987	87.0	47.0	93.4	70.0
8	Economic performance prior to 1991	Average growth (1985-1989) (%)	1985-89	5	4.3	0.8	5.2
8	Economic performance prior to 1991	Unemployment	1991	low	medium	medium	medium
8	Economic performance prior to 1991	Black Market Exchange Rate (% diff. over official)	1991	1,828	1,828	1,828	1,828
8	Economic performance prior to 1991	External Debt (% of GDP, 1991)	1991	0	0	0	0
8	Economic performance prior to 1991	Repressed Inflation, 1990	1990	25.7	25.7	25.7	25.7
8	Economic performance prior to 1991	Share of interrepublic trade with Russia, 1987	1987	48	62	57	45
9	Modernization	GNP per capita (PPP, US\$1989)	1989	4,230	5,130	4,620	3,180

<i>N</i>	<i>Variable</i>	<i>Measurement</i>	<i>Year</i>	<i>TU</i>	<i>KZ</i>	<i>AZ</i>	<i>KG</i>
9	Modernization	Mobile and fixed-line telephone subscribers (per 100 people), 1989	1989	5.9	7.5	8.3	6.6
9	Modernization	Mortality rate, infant (per 1,000 live births), 1985-1990	1985-90	86	54	80	69
9	Modernization	Poverty (% below \$2 a day)	1993-95	85.71	17.57	39.36	30.09
9	Modernization	Share of Agriculture in Output (%), 1990	1990	29	29	22	33
9	Modernization	Share of Industry in Output (%), 1990	1990	34	34	44	40
9	Modernization	Urban population (% of total), WDI	1990	45.1	56.3	53.7	37.8
9	Modernization	Life Expectancy at birth (1981-89), WDI	1981-89	62	68.2	65.3	66.2
9	Modernization	Overindustrialization (difference between actual and predicted industrialization, as percentage of GDP), De Melo 2003	1990	35	38	36	34
9	Modernization	Secondary School Enrolment Rate (%), 1987	1987	98	99	98	100
10	Previous political regime	Number of previous transitions to democracy, 1994	1994	0	0	1	0
11	Development of state institutions	Independence and development of state institutions	1990	0	0	0	0
11	Development of state institutions	Number of Years of Soviet Central Planning	1991	71	71	71	71
12	Salience of patron-client networks	Salience of patron-client networks in politics	1989	high	high	high	high
13	Democratic diffusion	Proximity to thriving market economies	1991	0	0	0	0
13	Democratic diffusion	Ratio of democracies to total no. of neighboring countries, 1990	1990	0	0	0.14	0
14	Economic inequality	Income inequality, 1990 (precise data not available; USSR average used)	1990	24.46	24.46	24.46	24.46

3.5.5. Methods

This study employed three methods for collecting data. First, I conducted a thorough survey of the secondary literature on each individual case and on political and economic developments in the Caucasus, Central Asia, and former Soviet Union. This included the analysis of print and broadcast media content on the topic as well as books and journal articles on the subject and related issues.

Second, I elicited data from publicly available documents and statistical datasets of government bodies, intergovernmental organizations, such as World Bank, IMF, EBRD, and UN, and non-governmental organizations, local and international alike. In addition, where archived government data, such as internal records and inter-ministerial communication, was accessible, I used it to elicit data primarily on oil-revenue movements and government taxation and spending decisions.

Third, to reconstruct events, understand actors' perceptions, and corroborate findings from other sources, I conducted a total of around 100 semi-structured in-depth interviews with government policymakers, international development community members, oil-company executives, NGO leaders, and scholars (for the list of selected interviewees, see Bibliography). I used non-probability sampling, specifically a combination of quota and snowball sampling, to identify subjects. Such sampling method was called for because probability sampling would have been neither useful – on the contrary, it would risk leaving important actors outside the sample (Tansey 2007), nor feasible, given the sensitivity of the topic.²⁶ In-depth format and open-ended questions were chosen to allow respondents to express their knowledge and insights in their own frameworks (Aberbach and Rockman 2002; Munck 2004). The interview protocols formed arrays of data, rather than a set of individual observations, which were used to fill or complement the jigsaw puzzle of the theoretical framework to understand a given case (Munck 2004). After interviews, their findings were also used to discover other primary or secondary sources and were validated by data collected through other interviews or other methods to minimize validity issues (Berry 2002).

²⁶ Respondents were asked around ten questions, which differed according to respondent's area of expertise. Each interview lasted on average 90 minutes. Questionnaires in English and Russian can be found in the Appendix.

3.6. Post-soviet political regimes: theoretical background

Current scholarship on post-communism has clustered around three major explanations of divergent political trajectories in Eastern Europe and the former Soviet Union. Institutional choice literature (e.g., Remington and Smith 1996; Fish 1997; Frye 1997; Huskey 2001) emphasizes the role of institutional choice, ‘founding elections’, swiftness and decisiveness of market reforms and ‘pacted’ versus ‘unpacted’ (between ruling elite and opposition) transitions during the late 1980s and early 1990s. Adjacent to these accounts are the works that stress the importance of understanding sequences of events that entail different political outcomes during transition (Anderson et al. 2001; McFaul 2002). Partly drawing on *transitology* literature (Rustow 1970; O'Donnell, Schmitter, and Whitehead 1986) and the works that examine the effect of market reforms on democracy (e.g., Przeworski 1991), they have inherited similar problems: they fall short of providing a satisfactory account of why specific institutions were chosen and specific decisions were made in each instance of successful democratization, incomplete transition or transitions, which, in Charles King's (2000: 146) words, “never really began at all”.

In contrast, historically grounded explanations (e.g., Bunce 1999; Suny 1996; Dawisha and Parrott 1997; Fairbanks 1996; Roy 2000) argue that the differences in political, economic and institutional legacies of the socialist past are the primary factors in explaining diverging postsocialist political trajectories. These legacies include varying degrees of state capacity, patterns of political dissent during socialism, the effects of *korenizatsiya* (nativization), traditional clientelist networks, and distortions in trade and industrial structure. These accounts are consonant with the studies in cross-regional comparative democratization (e.g., Linz and Stepan 1996; Haggard and Kaufman 1995) and historical institutionalism literature (Moore 1967; Skocpol 1979; Rueschemeyer, Huber, and Stephens 1991) that underscore the prevalence of long-term trends and structures over contingent circumstances in the development of regimes.

Finally, echoing modernization theory and the cultural approach to studying political systems (Almond and Verba 1989; Huntington 1996; Inglehart 1997), some students of postcommunism (Miller, Hesli, and Reisinger 1994; Duch 1993; Brzezinski 2001) emphasize the role of values, attitudes and beliefs in either adopting or rejecting the ‘Western-centered’ ideas of liberalism and civic culture by publics in Eastern Europe and the former Soviet Union. This, it is argued, subsequently results in either fostering or retarding democratization, respectively. In addition, Kopstein and Reilly (2000) and Nodia

(2002) suggest that spatial proximity to Western Europe is a strong predictor of democratization and market reform for post-socialist countries. Adjacent explanations look at elite values and roles during transitions (Hughes 1997; Hughes and John 2001). However, the value of applying cultural concepts in studying postcommunist transformations is widely debated (see, for instance, Mishler and Rose 1997, 2001; Colton and McFaul 2002; Whitefield and Evans 1999).

While these accounts offer plausible explanations, neither alone provides a satisfactory account of the entrenchment of authoritarianism in several post-Soviet countries, including Kazakhstan and Azerbaijan. Why was Ukraine, which arguably was similar to Kazakhstan among the successor states in institutional and economic terms (Jones Luong 2004), able to change its regime in 2004 “Orange Revolution” while Kazakhstan managed not only to remain autocratic, but become more autocratic over time and still enjoy political stability and economic growth? If the answer lies in peculiarities of Islamic culture (e.g., Lewis 1993; Huntington 1996; Pipes 1996; for a critical assessment, see Halliday 1996; Midlarsky 1998; Rose 2002; Fish 2002), why then authoritarianism fluctuated, with some elements of democracy being present in Kyrgyzstan (Marshall and Jagers 2010), a Soviet successor state that, apart from socialist legacy, shares a common culture and religion with both Kazakhstan and Azerbaijan?

The following chapters draw on some of this work and several important studies focusing on the post-Soviet region (e.g., Hoffman 1999; Cooley 1999; Jones Luong 1999; Heradstveit 2001; McGlinchey 2003; Bayulgen 2005; Jones Luong and Weinthal 2010) to examine the role played by oil wealth in boosting autocratic regimes in Central Asia and Azerbaijan. In doing so, I move beyond the literature on Central Asia that emphasises stereotypical features of the ‘stans’ – ‘clientelism,’ ‘clannism,’ etc. (e.g., Collins 2006, Schatz 2004) without providing a nuanced theory-guided analysis of differences. Instead, I show how oil wealth in these countries interacted with several salient structural and institutional factors in shaping actors’ incentives, entailing different policy choices and, ultimately, subtly different regime outcomes in these countries.

One study – that of Jones Luong and Weinthal (2010) – represents an original, ambitious attempt to explain the variety of institutional outcomes in the petroleum-rich former Soviet countries in terms of the ownership structures adopted by leaders.²⁷ The

²⁷ As this book became available in print after most of the work for the present thesis was completed, the incorporation and explicit investigation of its main finding was unfeasible. However,

present study is distinguished from Jones Luong and Weinthal (2010) in several ways. First, although it agrees that different political settings may entail different ownership structures, it does not see the ownership structure as the sole critical factor shaping development outcomes. As evident in subsequent chapters, if the ownership structure is an intervening variable, then it may be one of several and not the most relevant, causal mechanism mediating the effect of mineral resource abundance on *political regime*. The causal arrows running from domestic factors to ownership structure can be evident, while the arrow running from the ownership structure to development outcomes remains obscure.

Second, since the ownership structure is probably a function of structural and institutional variables as well as political factors, it is endogenous to them and, even if it is correlated with outcomes of interest, it is largely because of a change in the configuration of variables that define it.

Third, while Jones Luong and Weinthal (2010) tend to conflate various outcomes into a rather broad concept of a “development trajectory” that renders difficult subsequent generalization, this study explicitly deals with a specific institution – political regime.

Fourth, in choosing their cases, they fall into a common temptation of referring to post-Soviet environment as a “natural laboratory.” As section 3.5.3 shows, this was not the case – the post-Soviet countries exhibited important structural and institutional differences, and in the last years of the Soviet Union and the immediate aftermath of its collapse different republics underwent, to borrow from experimental studies, several *different treatments*,” not one “treatment.” Such strategy can skew the study’s findings as the cases may not be as analytically equivalent or homogenous as assumed. For example, the inclusion of the case of Russia, as I show in section 3.5.3, can be quite questionable.

Nevertheless, Jones Luong and Weinthal (2010) is a stimulating study and this thesis draws on the work constituting its core, which had been published by its authors previously.

4 Initial Conditions and Coalition Formation

4.1 Introduction

Why did different regimes emerge in Turkmenistan, Kazakhstan, Azerbaijan, and Kyrgyzstan in the immediate aftermath of the Soviet Union's disintegration? This chapter examines initial conditions in these countries and their effect on regime outcomes through taxation, spending, public office appointments, and coercion.

The chapter proceeds as follows. The next section briefly offers a theoretical framework, which draws on the model developed in Chapter 3, to understand the variation in ruling elite strategies and regime outcomes in Turkmenistan, Kazakhstan, Azerbaijan, and Kyrgyzstan during late Soviet—early independence period. In the second section, I detail the case studies of regime dynamics in these countries from the period immediately following the launch of partial political and economic liberalization in the Soviet Union and until the time when the ruling elites completed the process of building coalitions that were strong enough to ensure their survival in office. Third, I analyze the patterns of similarities and differences in causal mechanisms, which, according to the rentier state theory, link natural resource wealth with regime outcomes. In the fourth section, I examine the key sources of differences in these causal mechanisms. Finally, I conclude with a brief summary.

4.2 Theoretical framework

This chapter maintains that the availability of large oil revenues in developing countries during the re-building of their state institutions and the formation and re-grouping of coalitions that vie for power in a redefined state is one of the key factors accountable for autocratic regime outcomes. However, drawing on the theoretical model developed in Chapter 3, I argue that the effect of oil wealth on political institutions in general and political regime in particular is conditioned by existing structural and institutional factors that define the costs of patronage, coercion, and public goods provision. Table 4-1 provides an outline of factors that *concomitantly* explain different strategic contexts that the leaders in the four countries examined in this study faced. Different combinations of these factors triggered different causal mechanisms and ultimately led to different regime outcomes at the end of transition from a Soviet republic to an independent state.

Turkmenistan's gas and cotton revenues were one of the key factors that allowed its late-Soviet ruling elite led by Saparmurat Niyazov to avoid partial political and economic

liberalization that characterized other parts of the former Soviet Union. At the same time, the *ratio* of the (large) size of fiscal proceeds from natural resource exports to the (low) costs of patronage, coercion and public goods provision was important, enabling the leadership to avoid redistributive pressures by easily buying off or oppressing dissent potential. In Turkmenistan, there was neither a large, geographically concentrated, and politically mobile Russian minority like in Kazakhstan, nor alternative political elites like the ones that emerged in Azerbaijan as a result of its conflict with Armenia and the subsequent political instability. The Niyazov government was able to sustain a relatively high level of social spending, transfers and subsidies to households, and subsidies to state enterprises. This weakened already weak constraints on the executive and contributed to low political participation. Easily accessible rents decreased fiscal requirements, and allowed the government to avoid privatization and, therefore, the emergence of potentially autonomous or at least semi-autonomous sources of political power. Public sector employment remained at Soviet-era levels and the ruling elite retained the existing patterns of public office appointments. Finally, high fiscal resources helped Niyazov to maintain high coercive capacity that discouraged dissent.

Table 4-1. Explanatory Variables, Coalition Formation Stage

		<i>Oil revenues</i>	<i>Russian minority</i>	<i>Spread of alternative elites</i>
Turkmenistan	1989-1992	high	low	low
Kazakhstan	1989-1993	low	high	low
Azerbaijan	1989-1993	low	low	high
Kyrgyzstan	1989-1992	-	medium	medium

In Kazakhstan and Kyrgyzstan, large Russian minorities – and in Kazakhstan’s case, their geographic concentration and mobility – constrained the leaders’ domestic exercise of its power. However, the promise of oil wealth and availability of other revenues allowed the leadership of Kazakhstan to retain its incumbency advantage. In Kyrgyzstan, however, ethnic clashes in the south of Kyrgyzstan that entailed political instability and elite change led to a more pluralistic political system. In Azerbaijan, the violent conflict with Armenia over the largely Armenian-populated Azerbaijani province of Mountainous Garabagh (Nagorno-Karabakh) led to political and economic instability that resulted in three elite and one regime change. As a result, the political system was divided among several influential political elites vying for control over the state and future oil windfalls.

However, the causal mechanisms hypothesized in the political resource curse literature were neither uniformly triggered in all three oil-rich countries, nor showed change in the predicted direction. In addition, the difference in economic and political effects they entail highlights the importance of distinguishing between two different measures of oil wealth - oil reserves and oil production. As the cases of Kazakhstan and Azerbaijan suggest, unlike oil production, oil reserves may not have an immediate effect on fiscal policy and coercion. They, however, can contribute to formal and informal sources of patronage through often sizeable inflows not related to actual production, such as signature bonuses. The presence of reserves can also serve as a tool for incumbents to promote elite cohesion by pacifying potential challengers through their initial cooptation into government – a credible commitment that theoretically grants future access to rents.

Pre-oil coalition formation game has three key features. First, because of the uncertainty surrounding the redefinition of state borders, building new state institutions and ensuing instability, the leader is less secure in power and needs to *assert* his control over political and economic resources in the rapidly changing environment. Second, due to the same instability and uncertainty, the contest can take place among alternative elites both inside and outside of the government. Finally, because of the above factors, the leader may need to enlarge the winning coalition in order to stay in power. Different strategic contexts, therefore, have important implications for how actors perceive their environment and how the subsequent coalition formation game is played.

4.3 Case studies

4.3.1 Turkmenistan, 1989-1992

4.3.1.1 Political and economic environment

In the beginning of perestroika, Turkmenistan was one of the most tightly controlled republics, with the economy dominated by gas and cotton production and with a relatively poor population. For the most part of its existence, political and economical affairs in Turkmen SSR had been dominated by Russians. However, under Khrushchev and particularly under Brezhnev, more Turkmens entered Communist Party *nomenklatura* while economic policy remained the domain of Russian managers (author's interview with a former Supreme Soviet member). As elsewhere in the South Caucasus and Central Asia, the first secretary of the Communist Party of Turkmenistan and Brezhnev appointee Mukhamednazar Gafurov enjoyed a largely free reign in the republic in exchange to loyalty

and implementation of the centre's key directives. With Gorbachev's reforms, Gafurov and his associates were forced to resign. However, due to a shortage of cadres, many were able to quickly return to party and government structures. Gafurov nevertheless was replaced by the Chairman of the Council of Ministers of Turkmen SSR Saparmurat Niyazov, who was reportedly favoured by Yegor Ligachev, at the time one of Gorbachev's most influential allies in Politburo (Poltayeva, 2006; Trushin, 2005; Shikhmuradov, 2002).

4.3.1.2 *Causal mechanisms*

Ostensibly the follower of Gorbachev's reforms, in his first years Niyazov retained strict party control over the Turkmen economy and society. Despite the rhetoric of "radical restructuring of economic management" and "parasitic mentality" (Volkov, 1987), no real reforms were allowed to be implemented. Changes were circumscribed to occasional reshuffles in the party, ministries, and regions (Sovet Turkmenistany 1988a, 1988b; Turkmenskaya Iskra 1989). In addition, the ruling elite subtly sponsored the idea that Moscow-initiated purges are aimed at weakening Turkmen's control over the republican structures, thus stimulating mobilization along national lines in the party and government structures (author's interview with a former Supreme Soviet member).

When the wave of Gorbachev's liberalization reached other parts of Central Asia in 1989, Niyazov briefly tolerated some grassroots organizations. These groups, however, did not evolve into mass movements. First, authorities kept them under tight control. Two dissident groups *Agzybirlik* (Unity) and Democratic Party were founded in late 1989 and 1990, respectively. Some activists later maintained that during late 1980s Niyazov had several meetings with them, during which he claimed his government's line is to promote similar ideas (Ochs 1997). Neither group, however, was permitted to operate freely. Second, since the sort of public grievances that surfaced even in other socially stable Central Asian republics did not appear in Turkmenistan, dissident groups did not have public support to capitalize on. The result was the virtual absence of any demonstrations and protests (Ochs 1997). Since in 1989 the two largest ethnic minorities – Russians and Uzbeks – each comprised only 9 percent of the population, while Turkmen comprised 72 percent majority (USSR Census 1989), no viable nationalist movement that could constrain Niyazov's exercise of power emerged from within these groups either. Finally, although seventy years of Soviet rule did not erase tribal consciousness among Turkmen, during this critical period tribal divisions did not significantly affect regime outcomes (Kuru 2002).

Such stability owed to the fact that, despite the lack of preferential investment from the centre since late 1970s (Economist Intelligence Unit, 1996), Turkmenistan's enjoyed an average economic growth of 5 percent per year between 1985 and 1989 - higher than in neighbouring republics (World Bank 2009). Like Kyrgyz SSR, Turkmenistan was largely agricultural, with 55 percent rural population (World Bank 2009), although the urban population in 1980 was ten times larger than in 1924 (Ochs, 1997). The republic served primarily as a supplier of raw materials to the former Soviet Union, particularly cotton and gas, with only a small industrial sector consisting primarily of two oil refineries and the cotton gins (Pomfret, 2001). With more than 40 percent of its population employed in agriculture, Turkmenistan contributed 15 percent to USSR's total cotton production in 1988 (Gleason 1990, cited in Luong, 2001: 379). Cotton was exported to textile centres in Russia and other republics (Economist Intelligence Unit, 1996). However, unlike Kazakhstan, which depended on Russia and other republics for inputs to its industries, Turkmenistan manufactured most of the basic inputs for producing cotton within the republic (Weinthal, 1998; Luong, 2001). Overall, the share of inter-republic trade with Russia was smaller than in Kazakhstan, Azerbaijan and Kyrgyzstan; in 1987 it was 48 percent and decreased to 47 percent in 1990 (Metcalf: 534)

By late 1980s, however, natural gas came to dominate Turkmenistan's economy. In 1989, the republic was producing 81 billion cubic meters of natural gas (BP 2009). Although it produced oil as well, its output was declining. While the republic produced 142,000 barrels per day in 1985, in 1989 it was producing 121,000 barrels per day (BP 2009). Although nominally oil and gas rents per capita in 1990 of approximately \$2,498 (Ross 2008) were highest among oil producers in the former Soviet Union, these revenues flowed to the centre and only a part of them were transferred to Turkmen SSR. Still, previous years of growth and the safe cushion of cotton and gas revenues did not allow accumulation of social grievances, which could be tapped by challengers from within or outside the ruling elite in mobilizing the population against Niyazov's rule.

Previous accumulation of revenues from the rise in gas production and the relative autonomy in cotton production also proved crucial in helping late-Soviet Turkmen ruling elite avoid the challenges presented by the disintegration of the Soviet Union and its immediate aftermath. From the first half of 1990s Turkmenistan's GDP started to drop (Sabonis 2004; EBRD 2009). Although Turkmenistan was estimated to benefit by a 50 percent improvement in its terms of trade if it switched from within-FSU to world prices for

its key output, dependence on Soviet pipeline network to transport its natural gas complicated the prospects of exporting it to non-FSU markets (Pomfret 2001). However, even with these constraints the amount of windfall revenues from gas helped to partially offset the fiscal problems that hit the neighbouring Central Asian republics in the immediate aftermath of the Soviet collapse. One year after independence, in 1992, windfall revenues from gas exports amounted to 62.8 percent of total government revenue and a fiscal surplus equivalent to 13 percent of GDP (Economist Intelligence Unit 1997: 80). In addition, as early as in late 1992, Turkmenistan managed to attract some foreign investors, such as British Bidas, into its gas industry (Economist Intelligence Unit 1997: 75).

More importantly, given its relative autonomy in producing cotton, Turkmenistan did not require urgent capital injections to export it (World Bank, 1993b: xi, cited in Jones Luong and Weinthal 2001: 379). Moreover, since during the Soviet period Moscow operated as an intermediary between Turkmenistan and foreign buyers of its cotton, disappearance of the intermediary did not interrupt these transactions, and cotton in subsequent years increased as a percentage of exports (International Monetary Fund, 1994: 83, cited in Jones Luong and Weinthal: 379).

Despite the loss of union transfers and generally bleak economic situation, availability of rents from gas and cotton as well as technical credits from the Russian Central Bank (Economist Intelligence Unit 1997) relieved Niyazov's government of the need to pursue reforms. While Kazakhstan and to some degree Kyrgyzstan embarked on small-scale privatization early on, Turkmenistan did not even pursue privatization of housing (Pomfret 2001). It also largely shunned from reforming the taxation system and taxes remained at their pre-independence levels (Stepanyan 2003: 13-14). Although Turkmenistan had to follow Russia's early 1992 currency liberalization due to its usage of *ruble*, the government retained price controls for many consumer goods (Pomfret 2001). At the same time the practice of multiple extra-budgetary funds, most of them directly under the President's control, flourished more than during the Soviet Union. State-controlled enterprises continued quasi-fiscal activities and also operated as extra-budgetary institutions (Pomfret 2001). The government also initially sustained Soviet-era levels of social spending and maintained existing social programs, such as pensions at 57 for women and 62 for men. It also retained the provision of subsidies for basic goods and services. Finally, fearing the potential political consequences of unemployment, the state officially

continued to provide most employment, engaging about half of the labour force in agriculture (Lubin 1999; Pomfret 2001).

The government also sustained a highly repressive apparatus. The judicial system remained subservient to the president. The security services emphasized 'counter-intelligence', which in practice meant surveillance of the society for any potential opposition and active persecution of opposition. Attempts to even publish democratic-leaning material were persecuted and regime critics were placed under house arrest (Ochs, 1997).

A virtual absence of tangible challenges to his regime's stability allowed Niyazov to build his own personal power base independent of the Communist Party. In 1990, he was made the member of Politburo of the CPSU. While retaining his position of the First Secretary of the Communist Party of Turkmenistan, he also became the chairman of the Supreme Soviet of Turkmen SSR. Following the pattern across the USSR, later the same year Niyazov, running without alternatives, was elected the president (Poltayeva, 2006; Shikhmuradov, 2002). At the same time, Niyazov felt a need to maintain the appearance of *perestroika*. For example, although 90 percent of candidates elected to the Supreme Soviet in the elections of 1990 were CPSU members, he allowed alternative candidates to run as well (Ochs 1997). By mid-1991, however, he was so evidently distancing himself from the Communist Party, while simultaneously building up presidential power structures, that it caught the attention of a visiting CPSU Central Committee member (Zhukov 1991). The centre's grip on developments in the republic, however, was already weak.

Like his colleagues in other Central Asian republics, Niyazov was initially wary of full independence from the USSR. In March 1991, the government ensured 95 percent positive votes in the referendum on retaining the Soviet Union (Ochs 1997). However, after the failure of the August 1991 putsch in Moscow, with which Niyazov reportedly sympathized (Yegorov 1991), the Union's fate was clear. This time Niyazov called another referendum in October, which recorded 95 percent of votes for independence (ITAR-TASS 1991). Despite the challenges it posed, independence also meant full control over the republic's resources, politics and economy, and the facade of democratization could be abandoned with no fear of reprisal from the centre.

4.3.1.3 *Regime outcomes*

Niyazov proceeded firmly to institutionalize his administration's virtually sole control over the republic. In December 1991 the Communist Party of Turkmen SSR changed

its name to the Democratic Party, while the leaders of the opposition had been actively repressed since August (Yegorov 1991; Vasilyeva 1997; Kurtov, 2003). In June 1992, Niyazov ran uncontested to be elected the president of now-independent Turkmenistan with 99.5 percent of the vote. Reluctant to share power, Niyazov also took the post of prime minister. Although the new constitution adopted earlier in May resembled democratic constitutions adopted elsewhere in Eastern Europe and former Soviet Union, it poorly reflected the real state of affairs. Still, it already showed signs of superpowerful presidency (Constitution of Turkmenistan 1992). Finally, in July 1992, Niyazov initiated reform of local government and brought local councils under strict presidential control (Economist Intelligence Unit 1996).

4.3.2 Kazakhstan, 1989-1993

4.3.2.1 Political and economic environment

Kazakh SSR entered *perestroika* years with reshuffled yet strong Brezhnev-era political elite, a relatively diversified growing economy highly dependent on Russia, and an ethnically fragmented society. The patronage networks that developed during the twenty four years of leadership by Brezhnev's protégé Dinmukhammed Kunayev proved persistent despite Mikhail Gorbachev's efforts to the contrary. These networks were characterized by kin, regional and professional ties (Olcott 2002; Cummings 2005; Schatz 2004). South-easterners came to dominate these networks primarily due to Kunayev's own regional background, the location of the capital Alma-Ata²⁸ in the south-east, and the implications of Stalin's purges of mostly northern and western elites who were regarded tainted by their association with pre-Soviet nationalist *Alash Orda* government (Dave 2007).

In 1986, Gorbachev removed Kunayev from his post as First Secretary of the Communist Party of Kazakhstan. Probably anticipating Kunayev's removal and in a bid for his patron's office, Chairman of the Council of Ministers Nursultan Nazarbayev had quickly moved to position himself as a reformer by criticizing Kunayev's policies and nepotism, focusing on the latter's brother. As Nazarbayev himself was Kunayev's appointee and belonged to the same regional grouping, this could have well been an attempt by Kunayev's network at self-preservation (Masanov 1998; Amrekulov 2000). However, apprehensive of replacing the ousted leader with anyone within the Kazakhstani political system – and, therefore, presumably part of the existing patronage networks – Gorbachev brought an

²⁸ Renamed Almaty in 1992.

outsider from Russia, Gennady Kolbin. The appointment of a “*varyag*”²⁹ spurred an uprising in Alma-Ata in December 1986³⁰, which was violently repressed. Although later Kazakh historiography treated this event as a spontaneous insurgence of Kazakh national revival, the uprising was reportedly initiated by Kunayev associates (according to official reports, these were the children of Kazakhstan’s political elite – see Shakhanov 1991; Laitin 1991) in an attempt to mobilize popular support to retain their positions. Despite extensive purges and the initial success in fighting corruption in the republic, Kolbin failed to build up his own network, however, and was not able to implement many of the centre’s policies due to subtle resistance of existing political groups (Furman 2004; Olcott 2002; Cummings 2005). In 1989, he was replaced by Nazarbayev.

Notwithstanding political wrangles, Kazakhstan’s economy after the launch of *perestroika* and prior to 1989 recorded the GDP growth of an average 4.3% year on year (de Melo et al. 2001: 5). The legacy of almost seven decades of Soviet economic policies was not unequivocal, however. On the one hand, these policies entailed extensive modernization and industrialization. Kazakhstan’s economy was the most diversified among the Central Asian economies, with growing metallurgical and military-industrial sectors (Allworth 1994). During Kunayev’s leadership Kazakhstan became the third largest union republic in terms of net material product (NMP) and the fourth in industrial output, primarily producing iron ore, aluminium, heavy equipment, rolling stock, agricultural products, oil, and, in the final years of Soviet Union, one-fifth of the country’s gold and coal (Olcott 2002).

On the other hand, these policies also led to high concentration on extractive industries and acute dependence on Russia and other Soviet republics. First, Kazakhstan, like other Central Asian republics and Azerbaijan served mostly as an extractive base. In addition, under Khrushchev Kazakhstan’s northern provinces (*oblast’*) that specialized in producing metals were horizontally integrated with bordering *oblasts* in RSFSR than with the rest of Kazakhstan’s economy (Pomfret 2005). Kazakhstan’s industry, particularly in the north, also relied on subsidized inputs both from within and from outside the republic, including petroleum, coal, and natural gas (Gleason 1997: 83). Overall, the republican elite directly controlled only 8 percent of Kazakhstan’s economy, sharing another 48 percent

²⁹ “Varangian” - as party operatives who were sent to an unknown terrain to restore order were sometimes referred to (see Furman 2004).

³⁰ The number of protesters is disputed and ranges from 11,000 to 40,000 (Pannier 2006).

with Moscow, with the other 43 percent – including fifty factories belonging to the country's military-industrial complex – controlled exclusively by Moscow (Olcott 2002: 131).

Finally, although the Soviet Union provided guaranteed markets for Kazakhstan's grain and heavy and chemical industry products, this had two negative implications for Kazakhstan. First, the prices for these products were artificially low (Auty 1997). Second, since these products, particularly grain, were mostly aimed at distribution among union republics rather than for export (Jones Luong and Weinthal 2001), Kazakhstan dependence on these markets was considerable. The republic's economy would face significant challenges in reorienting to new markets if its existing markets were to break or be lost for Kazakhstan. This is what began to unravel around 1989.

Kazakhstan's dependence on Russia, in particular, had not been circumscribed to economy. By 1989, the republic was not only one of the most ethnically diverse in the USSR (Alesina et al. 2003; Fearon 2003), but of its 16.5 million population only 40.1 percent were ethnic Kazakhs, while ethnic Russians made up 37.4 percent (Agenstvo Respubliki Kazakhstan po Statistike 2000). In fact, the earlier percentages were in favour of Russians: in 1970, Kazakhs constituted 32.6 percent while Russians, 42.4 percent; and in 1979, Kazakhs constituted 36 percent while Russians, 40.8 percent (Kazakhstan State Statistical Agency 2000). Moreover, the Russian and other Slavic populations were concentrated in the north of Kazakhstan. In addition, the Russian-speaking population, including Russified Kazakhs, also had in average higher technical skills than traditional Kazakh population (author's interview with Oraz Jandosov).

Once partial democratization and economic liberalization was launched by Moscow and the issues of union republic sovereignty and national languages were raised across the USSR with Kazakhstan's leadership following suit, several nationalist groups, such as the Organization for the Autonomy of Eastern Kazakhstan (OAEK), *Yedinstvo* (Unity) and *Lad* (Harmony) emerged. OAEK, for example, called for greater political and economic autonomy and led a successful campaign to promote its candidates in elections to local and city soviets in northern oblasts. *Lad* demanded a degree of local autonomy that would be tantamount to secession from Kazakhstan (Olcott 1997). Emerging Kazakh nationalist groups included *Zheltoksan*³¹, *Azat* (Freedom) and *Alash* (Olcott 1997). These groups demanded linguistic and institutional privileges for Kazakhs. These developments were inextricably linked to economic problems that started to hit the population in late 1980s. A

³¹ Named after December 1986 protests in Alma-Ata.

substantial overlap of the republic's ethnic make-up with its regional economic specialization complicated the situation (author's interviews with Kanat Berentayev, Oraz Jandosov).

4.3.2.2 *Causal mechanisms*

Increasingly ailing economy dependent on Russia and other soviet republics and the need to pre-empt potential ethnic conflict posed significant challenges to Nazarbayev. Shortly after becoming the head of the Communist Party of Kazakhstan, Nazarbayev had been able to consolidate his power within the country (Olcott 2002; Cummings 2005). He promoted to key deputy positions in the Communist Party, the Supreme Soviet, the Council of Ministers and the republican KGB some of his fellow south-easterners and close associates (Schatz 2004). However, mounting economic problems and ethnic tensions, if not addressed carefully and promptly, could over time erode Nazarbayev's authority, weaken his coalition and, according to some observers, even lead to the break-up of the republic (author's interview with Kanat Berentayev).

A number of factors helped Nazarbayev to consolidate his power and keep a substantial degree of control over social and ethnic tensions between 1989 and 1991. First, earlier purges by Kolbin resulted in the lack of strong rivals (Olcott 2002; Cummings 2005) and Nazarbayev presumably secured support of key political groups, including Kunayev's (Dave 2007). Second, the Soviet state and Communist Party apparatus, unlike in some Western republics of the FSU, was still strong in Kazakhstan as in other republics of Central Asia except Kyrgyzstan while the society did not exhibit nearly the same vigor as national independence movements in western FSU (Olcott 1997). There was no mass exit from CPSU in Kazakhstan (author's interview with Rustam Kadyrzhanov). Third, Nazarbayev, unlike his counterpart in Turkmenistan, allowed some, albeit small, degree of economic liberalization – for example, by encouraging cooperatives (Abazov 1997, p.439), and gained a reputation for reform-mindedness (Gleason 1997: 84). Fourth, the republic was still reaping the benefits of the high level of economic growth attained in previous years. Finally, despite passing the legislation that made Kazakh the state language and subtle *Kazakhization* (Dave 2007), Nazarbayev was otherwise careful not to alienate Russians and other Slavic people in the republic. The latter, in turn, saw him as the best available guarantor of stability amid rapidly changing political and economic environment (Gleason 1997: 83-84; Olcott 1997: 213; author's interview with Rustam Kadyrzhanov).

At the time, Kazakhstan's oil and gas sector was underdeveloped – with many fields unexplored – and, therefore, did not constitute a major source of revenues for the republic and a means to soothe social tensions. The industry was concentrated in Mangghystau and Atyraou, two Western oblasts far from the political center (Hoffman 2000; Najman 2002). Oil contributed 6 percent and gas contributed 1 percent to the USSR's oil and gas production, respectively (Jones Luong and Weinthal 2001: 381). In 1991, Kazakhstan produced an average of 532,00 barrels of crude oil per day, 6.4 billion cubic meters of natural gas and a total of 130 million metric tons of coal (Gleason 1997: 83; Masanova 1999: 31). Most of these was either consumed domestically or supplied to other union republics. Moreover, since the technology and equipment were out-dated, export at market prices was not a viable option until considerable capital investments were made (Jones Luong and Weinthal 2001: 381). The increasing economic liberalization in the Soviet Union, however, enabled Kazakhstan's leadership to attract interested foreign investors and as early as in 1990, Nazarbayev administration already started negotiations with Chevron over Tengiz field in what became one of the largest foreign direct investments in the former Soviet Union (Pomfret 2006: 3). Coupled with the earlier economic growth, the promise of substantial oil revenues came to be viewed by Nazarbayev administration as a tool to help ensure economic and political stability.

Kazakhstan's problems became aggravated in 1991, when the Soviet Union officially disintegrated. Given its dependence on Russia and FSU, Kazakhstan was the last republic to declare independence (Pomfret 2005: 859). Independence presented significant challenges as well as opportunities for the new country's leadership. One of the key challenges was dealing with the looming economic collapse brought by a decrease and then halt in transfers from FSU and then Russia, lost access to FSU markets and destabilization of enterprises horizontally integrated into the union-level productive structures. The downward trend in economic growth that started after 1989 (World Bank 2009) resulted in substantial decrease in revenues and increasingly little amount of real money available (author's interview with Tulegen Askarov). Between 1991 and 1994, gross industrial output decreased by an average 14 percent year on year (EBRD 2008). In mid-1993, Kazakhstan's economy experienced a major crisis following the collapse of the *ruble* zone due to Gaidar government's sudden release of price and currency controls in Russia. Cross-border trade with Russia neared a breakdown, affecting all industries that were tied to Russia's enterprises during the Soviet Union, especially in the north of Kazakhstan. The country lost

access to the transfers of resources amounting to between 20 and 25 percent of Kazakhstan's GDP. The transfers from non-FSU sources totalling 3.7 percent of GDP could not offset this loss (World Bank, 1997: xi).

Furthermore, although at the time of independence agriculture was the second largest sector in the republic's economy with 36 percent contribution to NMP and employing 18 percent of the labour force, agricultural products contributed an average of only 9 percent to export earnings since Kazakhstan lacked a system of non-FSU buyers for wheat, its main agricultural product (World Bank, 1993: 106, cited in Jones Luong and Weinthal 2001: 380). Similarly, the country's non-fuel mineral sector as well as its oil and gas resources required substantial capital investment in both developing the resources and transporting them to world markets (Jones Luong and Weinthal 2001: 380). Re-orientation to new markets was extremely problematic and entry costs to foreign investors extremely high (Grigoryev and Nusupova 2004; Jones Luong and Weinthal 2001). Shadow economy that developed during the Soviet period gained further momentum, estimating at between 22 and 34 percent of the economy (Friedman et al. 2000, author's interview with Aytolkyn Kurmanova).

Building new national state institutions amid the environment of social instability and potential secession was another immediate challenge. During the Soviet period, Kazakhstan's central government was an intermediary – and often a weak one – between Moscow and Kazakhstan's provinces, partly reflecting the regional economic specialization within the republic and partly – political considerations of the centre (World Bank 1997). Independence implied pulling all oblasts under the central government's political and administrative control, rebuilding old institutions of the state and establishing new ones. In addition, since there was no longer a Communist Party, the government needed to absorb its policy formulation functions and administrative capacities. Moreover, since previously launched programme of economic liberalization, privatization and local self-government – largely emulating Russia's policies (Pomfret 2005: 859) – was seen as slipping out of hand and the country's dispersed geography, ethnic tensions, and social problems were likely to combine in driving Kazakhstan toward chaos, the government was increasingly inclined to re-establish national authority (World Bank 1997; author's interview with Oraz Jandosov). Finally, given the complicated geography, unfavourable external environment, and the state's weakness, the government was concerned about the state's security; in the words of

one astute observer, “the first thing was to pay for security” (author’s interview with Tulegen Askarov).

To address these challenges and ensure his own survival in office, Nazarbayev initially maintained close ties with Russia, while attracting major Western investors into Kazakhstan’s oil and metals sector, initiating a vigorous programme of privatization, and allowing some economic and political liberalization in order to attract FDI. At the same time, he pursued gradual centralization of state institutions and co-optation of various influential opposition, ethnic, and regional leaders. First, between 1992 and 1994 Nazarbayev’s economic policy emphasized synchronization with developments in Russia. Most of his policies and proposed legislation were in fact borrowed from those in Russia, such as privatization and price liberalization (Pomfret 2005: 859). Nazarbayev was also one of the strongest proponents of developing the Commonwealth of Independent States (Lipsky 1993; Pomfret 2005), which was seen as a possible viable successor to USSR. Kazakhstan was hit hard by the repercussions of abandoning the Russian ruble as its currency. However, this finally allowed the country to design independent fiscal and monetary policy and weakened Kazakhstan’s dependence on Russia (Alam and Banerji 2000; World Bank 2005).

Second, by 1993 Kazakhstan started quickly attracting major foreign investors interested in its substantial oil wealth, particularly Chevron, British Gas and Agip (World Bank 1993: 33), often making substantial, if not excessive, concessions along the way (Alam and Banerji 2000: 16). The Nazarbayev government used both the proceeds, like signature bonuses, and the promise of expected windfalls³² for soothing social tensions and promoting elite cohesion. From 1990 to 1995, investments in the oil sector comprised 40 percent of all sectoral investment and large influxes of foreign investment helped offset the effects of the 1993 crisis (Jones Luong 1999: 37; Olcott 2002). Developing the oil sector was not easy, however. First, there was a legal disagreement over delimitation of the Caspian Sea among littoral states (Croissant and Aras 1999; Mehdiyoun 2000). Second, the pipeline network that Kazakhstan could rely on to transport its oil was controlled by Transneft, the Russian state-owned pipeline company. Transneft set arbitrarily high costs for Kazakh oil³³. Initially, Russia also claimed some rights to part of Tengiz, which is Kazakhstan’s largest oil

³² According to some observers, calculations used by Kazakh officials were exaggerated (Jones Luong 1999).

³³ About twice as much as for Russian crude (Pomfret 2006, p. 2).

field³⁴ (Pomfret 2006: 2). Third, prices for oil were at the time low in the global markets (BP 2010). Finally, the distance between the capital and oil and gas producing *oblasts*, now five in number, involved extra transaction costs (author's interview with Kanat Berentayev; Hoffman 2000). Overall, the oil sector accounted for less than a sixth in industrial production (Pomfret 2005: 870).

To further attract FDI and sustain the budget, Nazarbayev needed to maintain a certain degree of economic liberalization. While tax reform was initially poorly conceived with more than 40 types of taxes and was mostly mimicking Russia's tax policy, overall the government tried to maintain liberal taxes towards enterprises to attract FDI and not alienate domestic constituents (The Law on the Taxation System in the Republic of Kazakhstan 1991; author's interview with Oraz Jandosov; Jones Luong 1999; Witt and McLure, 2002). In addition, it kept income taxes at the levels not much exceeding pre-independence levels (author's interview with Yergazin Abdrakhmonov). A major development was the replacement of turnover tax with a value added tax (VAT) in 1992, which proved effective afterwards (Lesbekov 2000). However, the government also maintained an extensive non-transparent system of tax privileges and tolerated increasingly large arrears (author's interviews with Meruert Makhmutova, Jahangir Jurayev). The relative size of tax receipts declined from 21.5 percent of GDP in 1992 to 12.3 percent in 1994 (IMF 2010). Finally, the geographical distribution of tax revenues was both uneven and unstable over time, possibly reflecting not only the regional specialization in commodities (World bank 1997: xxvii), but also concessions made to different regions and initially some degree of fiscal decentralization (author's interview with Meruert Makhmutova).

A critical need for revenue pushed Nazarbayev government to start privatization early on (author's interviews with Tulegen Askarov, Kanat Berentayev, Sergey Zlotnikov). During the first stage, state-provided housing, retail trade, and service facilities were privatized, the latter usually by management and employees (Alam 2000). This stage was implemented relatively evenly (Olcott 2002) and brought revenues totaling 5.6 percent and 9 percent of GDP in 1991 and 1992, respectively (EBRD 2008b). The second stage of privatization in Kazakhstan was more controversial than the first one as it was relatively nontransparent and restrictive in participation (author's interview with Sergey Zlotnikov) and reportedly allowed a relatively small number of individuals close to the regime and

³⁴ The third reason was that, due to high sulphur content, the price of Kazakh oil would be low – by some estimates 25 percent lower than that for North Sea oil (Auty 1997, p. 5; see also Ahmadov 2009).

particularly to Nazarbayev family to secure the most lucrative businesses and amass large wealth (Olcott 2002). In 1993, the government started privatizing medium-sized enterprises and factories and in that year the proceeds totaled 11.7 percent of GDP (EBRD 2008b). In late 1993, the government also began offering shares in large enterprises to foreign buyers (Pomfret 2005). Overall, the fiscal proceeds from privatization were on average 4-5 times bigger than in comparable Uzbekistan and were largest for any of the post-communist countries (Alam 2000: 7).

Three factors other than the urgent need to fill the state coffers help explain why such privatization was pursued. First, due to his incumbency advantage and administrative control over the privatization programme, Nazarbayev did not feel threatened by its possible implications (author's interview with Jahangir Jurayev). On the contrary, the way the privatization was pursued ensured that those enriched are those with access to information and administrative levers (Masanova, 1999); in other words, it could be regarded as a form of patronage by Nazarbayev, especially since official public service wages were declining considerably (World Bank, 1997: xiv). Finally, where Russian and Slavic management or employees were seen as presenting a challenge, privatization allowed transferring economic power to the mostly Kazakh elite well under Nazarbayev's control (Amrekulov 1999). In sum, for the ruling elite the benefits of privatizing far outweighed its costs.

Budget spending during this period was dominated by the Soviet-era logic of passive distribution of available resources among a myriad of budget entities. The government was trying to keep the government size and much of the social spending at relatively high pre-independence levels, since rapid fiscal adjustment could have serious social and political implications. There were around 2000 budget units on the republican level and around 40,000 on the sub-national level (World Bank 1997: xxix). Due to economic hardships, social spending was falling each year since independence and pension and payment arrears accumulated (Alam 2000: 6; see also Jones Luong, 1999). The transfers to households and public investment fell by an average of 6 percent year on year from 1992 to 1995. Public service expenditures also fell, by around 4 percent year on year (World Bank, 1997: xiii). The regional distribution of spending had changed too. Soviet era budgetary institutions left ample room for discretion and bargaining at the distribution stage and this was tapped by regional elites (Witt and McLure, 2002). Owing to the change in regional distribution in industrial output since independence, some regions, and particularly oil-producing and

Russian-populated oblasts, were initially receiving more preferential treatment than others (author's interview with Oraz Jandosov).

At the same time, the government had to build or rebuild state institutions and, after what came to be seen as a necessary but excessive liberalization, started to re-establish national authority in areas seen to have drifted away from the republican-level control. Former union-level structures were incorporated into republican structures and new national-level structures were created (World Bank 1997). The Communist Party departments were transformed into administrative structures. Nazarbayev himself had resigned from his post as the chairman in 1991 after becoming the president of Kazakh SSR, and the party effectively disintegrated. Also, initially a 1991 law on local self-administration dissolved local soviets and transferred the enterprises and properties under their control as well as their responsibilities to new local governments. The latter, however, moved quickly to pass conflicting policies - for example, "declaring tax-free zones, contracting foreign loans, and embezzling public properties" (World Bank 1997: 8) - that increasingly resulted in disarray. In late 1992, the Nazarbayev government put all tax administrations under the national Tax Inspectorate and stopped privatization for some period. More critical, however, was the 1993 constitution that effectively abolished local self-government and put local government bodies under direct republican control (World Bank 1997: 8). Finally, as early as in 1992, according to Supreme Soviet Chairman and Nazarbayev's former ally Serikbolsyn Abdildin, Nazarbayev initiated a discussion about moving the capital from Almaty to Akmola³⁵ in the north of the country (author's interview with Rustam Kadyrzhanov). Many observers agree that one of the key reasons for this move was Nazarbayev administration's effort to prevent irredentist movements of Russian groups (Jones Luong, 2001; author's interview with Oraz Jandosov, Rustam Kadyrzhanov).

In a process Hughes (1997: 1029) calls "soviet elite colonisation of the new institutions," a number of economists who managed the republic's economy during the last years of the Soviet Union were either re-appointed to their slightly transformed positions or given new offices. To partly address the country's precarious ethnic balance, Russian and Slavic managers were initially drawn to some high-level positions as well as serving as deputies in the Supreme Soviet. Sergei Tereschenko, a young Russian-Ukrainian, was appointed Prime Minister. Nazarbayev also invited a number of foreign economic advisers, most notably Grigory Yavlinsky from Russia (Cummings 2005:23). Yet, most of the existing

³⁵ Renamed Astana in 1998, this is the current capital of Kazakhstan.

state institutions changed in name only and key positions in the government were given to Nazarbayev's long-time associates, relatives and individuals from the president's broad region (Amrekulov and Masanov 1994; Olcott 2002; Furman 2004; Schatz 2004; Cummings 2005; Dave 2007). Despite the shrinking wage bill, the overall number of government employees was not significantly decreased (World Bank 1997: xxxviii).

Despite post-Soviet economic crisis, partial liberalization, and unleashing of crime, Kazakhstan's authorities retained the high repressive capacity that characterized the Soviet state. Some opposition groups, such as *Alash*, were suppressed (Olcott 1997). In other cases, leaders of unregistered ethnic minority groups were briefly arrested (Artykova 1993). However, there were relatively few reports of disappearances, extrajudicial killing, and torture (Cingranelli and Richards 2008).

Although Nazarbayev explicitly argued for the need for strong presidency in his speeches (Nazarbaev 1992:5) from the beginning of the independence, initially he felt compelled to adopt a liberal attitude towards independent parties, media and civil society³⁶. Following Boris Yeltsin in Russia, he created a number of top-down political parties, while abstaining from joining any, as the constitution put the president above the political system. The three major parties were the Union of Unity and Progress for Kazakhstan, the People's Congress Party (PNEK, later renamed SNEK), and the Union of People's Unity of Kazakhstan or UPU (renamed People's Unity Party or PUP). These served primarily as an in-house opposition, although later the leaders of the two of them – Olzhas Suleimenov of PNEK and Seri Abdrakhmanov of UPU – would have genuine presidential ambitions in the elections scheduled for 1995 (Cummings 2005:24-25). Non-governmental organizations created during this period were also diverse, dealing with environment and human rights alike, and were not limited to "safe" spheres (Weinthal 2004). The number of mass media outlets also rose exponentially, including broadcast media and radio (Olcott 2002, 105). By 1993, the Supreme Soviet was quite diverse and allowed representation of different economic interests (Cummings 2005:25). The privatization, IMF-backed stabilization

³⁶ It became fashionable to draw parallels between Kazakhstan and the experience of the "Asian Tigers" presumably suggesting that achieving high levels of economic development in Asian countries requires centralization of power. In announcing *Kazakhstan-2030*, a strategic development document, Nazarbayev (1997, p. 5) wrote: "Such staggering achievements made these countries world famous assigning them the name of Asian Tigers. Are there any obstacles which might prevent Kazakhstan availing of fine opportunities from scoring the same success? None whatsoever. I, for my part, am sure that by the year of 2030 Kazakhstan would have become a Central-Asian Snow Leopard and would serve a fine example to be followed by other developing countries... It will be virtually a Kazakhstani Snow Leopard with inherent elitarianism, sense of independence, intelligence, courage and nobleness, bravery and cunning."

programme, and disbandment of local governments, however, were quickly becoming a point of tension between the executive and legislature (Kozlov 1993: 3; author's interview with Rustam Kadyrzhanov; see also Cummings 2005; Olcott 2002).

4.3.2.3 Regime outcomes

As he grew more confident with the first substantial inflows of revenues in the wake of the post-independence economic crisis, however, Nazarbayev pushed for disbanding the legislature on the pretext that, along with local soviets, it represents the outdated Soviet system of governance. First, Nazarbayev supporters in the Supreme Soviet resigned and called for their colleagues to follow suit; several days later, in December 1993, the legislature disbanded itself allowing Nazarbayev to rule by decree until the next parliamentary elections in March 1994 (ITAR-TASS, 1993; Masanov 1998).

4.3.3 Azerbaijan, 1989-1994

4.3.3.1 Political and economic environment

During early years of *perestroika*, the political elite in Azerbaijan SSR did not undergo any significant change. The reforms were resisted by the party leadership, which was largely composed of the appointees of Heydar Aliyev, the former First Secretary of the republic's Communist Party and KGB general who in 1982 had been promoted to the positions of deputy prime minister of the Soviet Union and full member of Politburo (The Associated Press 1982; Altstadt 1997). A Brezhnev appointee, during his period of rule in Azerbaijan Aliyev promoted to key positions in the government Azerbaijanis from his native Nakhchivan region and from Armenia. Gorbachev regarded him a conservative, and in 1987 Aliyev was forced to resign (TASS 1987). Despite some reshuffles and Aliyev's forced retirement, most of the ruling elite in Azerbaijan, including the First Secretary of the Communist Party Kamran Bagirov, remained in their positions until mid-1988.

At the time, Azerbaijan's economy was relatively diverse and industrialized. Agriculture accounted for around 30 percent of NMP. Azerbaijan contributed 23 percent, 13 percent and 8 percent to the Soviet production of grapes, tobacco and cotton, respectively (World Bank 1993: 3). However, Gorbachev's anti-alcohol policy in the mid-1980s resulted in significant reduction in grape production, which seriously affected agricultural performance in subsequent years as 90 percent of grape varieties produced in Azerbaijan were aimed for wine industry (Walker 1985; Curtis 1995).

The republic also possessed a relatively wide industrial base, which accounted for 40 percent of net material product (NMP) and employed 20 percent of the labor force (World Bank 1993: 3). Largely due to its industrial base, the urban population was relatively higher than in Turkmenistan and Kyrgyzstan – 53.7 percent of total in 1989 (de Melo et al. 2001: 5). In late 1980s, fuels, petrochemical products, oil-drilling equipment, textiles, and processed foods were the key components of Azerbaijan's industry (Curtis 1995). Between 1985 and 1989, average growth was quite small at 0.8 percent (de Melo 2001). However, the budget deficit, excluding union transfers, was only 2 percent of GNP between 1987 and 1990 (World Bank 1993). Overall, with GNP per capita (PPP) of \$4620 in 1989, Azerbaijan was among the relatively poor republics in the Soviet Union (de Melo 2001: 5).

Although during previous decades oil production constituted the backbone of Azerbaijan's economy, by mid-1980s it played a relatively insignificant role. Azerbaijan was one of the first countries to produce oil since the middle of the 19th century and in early 20th century accounted for half of the world oil production (World Bank 1993: 2). During World War II, it supplied about 70 percent of the Soviet oil output. Oil production has been concentrated in the Western part of the Caspian Sea and Absheron peninsula, where the republic's capital Baku is located. However, after the discovery of major oil fields in Urals and Western Siberia, Azerbaijan was no longer the centre of Soviet oil production and the industry was subsequently neglected (author's interview with Sabit Baghirov; World Bank 1993). In 1990, Azerbaijan produced 254 thousand barrels of oil per day, which accounted for only 2 percent of Soviet oil production (BP 2009; Curtis 1995). Azerbaijan's gas production has historically been lower – in 1989 the republic produced 10 billion cubic meters of gas (BP 2009). At the same time, Azerbaijan was contributing around 60 percent to Soviet production of oil extraction machinery and equipment (Curtis 1995).

The eruption of the conflict with Armenian SSR over the Mountainous Garabagh³⁷ in early 1988 had a decisive impact on subsequent political and economic developments in Azerbaijan. In 1979, the two largest minorities – Armenians and Russians – each constituted 8 percent of the population of Azerbaijan, while Azerbaijanis constituted 78 percent (USSR Central Statistical Office 1984). Armenia and Azerbaijan had a previous history of contesting the largely Armenian-populated province of Mountainous Garabagh, which at the time was under Azerbaijan's jurisdiction. In February 1988, Armenian demonstrations

³⁷ The Russian term is Nagorniy Karabakh. The current term – Nagorno-Karabakh – is taken from the full Soviet time name of the province – Nagorno-Karabakh Autonomous Oblast.

erupted in Mountainous Garabagh demanding that the province is included into Armenian SSR (Vremya 1988; United Press International 1988). Despite the curfew imposed by Moscow, the dispute escalated first into mass demonstrations on both sides and then into communal violence in several cities across Armenia and Azerbaijan. Within the next few years it evolved into a low-level conflict, characterized by mass deportations and armed clashes between various militia groups (for a comprehensive and balanced treatment of the subject, see De Waal 2003).

The political systems and economies of both republics were hit by mass strikes (Gilmour 1988; Katell 1988). First, in May 1988, the first party secretaries of Azerbaijan and Armenia were forced to resign (Keller 1988). In Azerbaijan, Kamran Bagirov was replaced by Abdulrahman Vazirov (Redden 1988), a relatively unknown Soviet diplomat who had largely been outside of the local party system and was therefore considered a reliable outsider to the patronage system that had evolved during Aliyev's rule. Vazirov's ascent to power entailed reshuffles resulting in partial ousting of Aliyev appointees from party and government circles (author's interview with a former government official).

4.3.3.2 *Causal mechanisms*

Apart from the change of leadership the conflict significantly accelerated the formation of Azerbaijan's national movement. The growing opposition was able to mobilize parts of the population behind nationalist and democratic slogans (Altstadt 1997). In August 1989, the opposition Popular Front of Azerbaijan organized a half million protest rally and the strike that hit around 60 major state enterprises, including oil refineries and the largest plant producing oil equipment for Russia's Tyumen oil fields (Reuters 1989). Subsequently, railways carrying equipment, building materials and petroleum to Armenia were blocked by the rail workers' strike (Cornwell 1989). The protests were both aimed against Armenian claims over the Mountainous Garabagh and called for a greater autonomy for Azerbaijan from the Soviet Union.

In January 1990, in a backlash to Armenian Supreme Soviet's official declaration on unifying with Mountainous Garabagh, the protests in Azerbaijan's capital became entangled with communal conflict, allegedly incited by radical activists from the Popular Front, who, according to some accounts, were also encouraged by the party officials, including Viktor Polyanichko, the second secretary of the Communist Party of Azerbaijan and former Soviet representative in Afghanistan (Keller 1990). In an attempt to soothe tensions, quell dissent and prevent what Gorbachev considered "Islamic fundamentalism," the Supreme Soviet

dispatched eleven thousand additional army and KGB troops (Cornwell 1990), which crashed the protesters and bystanders in the capital Baku. According to official figures, 130 people were killed and around a thousand wounded. The Popular Front offices were sealed and its forty-three leaders arrested (Altstadt 1997). The republic's leadership changed again: Vazirov was dismissed and replaced by former prime minister Ayaz Mutallibov (Imse 1990).

Mutallibov's reign was also troubled and relatively short. He first moved to re-establish the party's control over the republic. In 1990 parliamentary elections, 300 seats out of 350 were given to communists and only 30 to opposition candidates. During the newly initiated presidential elections, he ran unopposed since no opponent was permitted to register (Altstadt 1997: 124). However, in October 1991, the Supreme Soviet had little choice but to pass the declaration of independence following the unsuccessful putsch against Gorbachev that indicated the inevitability of the collapse of the union. By this time the Popular Front regained its strength and, along with some other opposition figures, formed an influential Democratic Bloc (DemBloc) in the parliament. Mutallibov was forced to allow the formation of the National Council (*Milli Shura*), a fifty-member upper house within the Supreme Soviet composed of 25 deputies from among the communists and 25 deputies from among the DemBloc members (TASS 1991; Altstadt 1997). The council also included a small fraction of former Heydar Aliyev appointees among the communists and sympathizers among the opposition fraction (author's interview with former Popular Front leader).

Two influential groups in nomenklatura, Mutallibov and former Aliyev followers, were trying to use the Popular Front in their struggle with each other. Aliyev, who at the time was chairing Nakhchivan's Supreme Soviet, was ruling the exclave in tandem with local Popular Front leaders (author's interview with Isa Qambar).

After losing several Azerbaijani regions, particularly after a massacre of the whole Azerbaijani population of a small town Khojaly by Armenian armed forces reportedly helped by Russian 366 Motor Rifle Regiment, Mutallibov was forced to resign. The following months witnessed several power changes, including a brief unsuccessful comeback by Mutallibov. Finally, in June 1992, the first and by many accounts the only democratic elections in post-Soviet Azerbaijan, brought the Popular Front chairman and former dissident Abulfaz Elchibey (Aliyev³⁸) into presidency with 60 percent of votes (Ismailov 1999). The Popular Front's ascent to power was partially due to a pact with the Cabinet of Ministers led by Rahim Huseynov (author's interview with Sabit Baghirov)(Cavadli 2009).

³⁸ No relation to Heydar Aliyev.

The Popular Front government inherited a significantly weakened economy. The effect of the involvement in the conflict, subsequent political instability and disintegration of the Soviet Union on the republic's economy and, inevitably, its public finance was threefold. First, both industrial and agricultural production was disrupted. Gross industrial output decreased by an average of 16 percent a year between 1990 and 1993 (EBRD 2009). In 1991, the energy sector's contribution to NMP was less than 10 percent (World Bank 1993: ix). Agricultural production decreased by an average of 14 percent a year during the same period (EBRD 2009). The republic's cotton production was contributing a relatively small 8 percent to the Soviet Union's total cotton production, but disruptions resulting from the conflict and strikes undermined this production further (World Bank 1993: 3; Jones Luong and Weinthal 2001). In 1992, agriculture contributed 22 percent less to NMP than in the previous year (Curtis 1995). Disintegration of the Soviet Union resulted in losing inputs and markets, particularly in Russia - Azerbaijan's interrepublican trade with Russia was relatively high at 57 percent in 1987 (Metcalf 1997). Between 1990 and 1993, the GDP declined by an average 14.5 percent a year (EBRD 2009). If in the period 1987-1990 the budget deficit without Soviet transfers was around 2 percent of GNP, in 1990-1991 the deficit rose to 5 percent of GNP (World Bank 1993).

Second, the conflict was increasingly draining the state's resources through military spending. While in the initial phases, due to Mutallibov's avoidance to recruit a national army the conflict on the Azerbaijani side was largely fought by paramilitary units and several militia groups, in later phases the national army was formed. Amounting to 2.5 percent of GDP in 1992 and to 4.9 percent of GDP in 1993, military spending in both years was the second largest in the former Soviet Union, after Russia's (SIPRI 2009). It consumed more than \$100 million between 1992 and 1993 (WDI 2009).

Third, as the conflict progressed, other parts of Azerbaijan became flooded by refugees from Armenia and internally displaced persons (IDPs) from Mountainous Garabagh and adjacent Azerbaijani regions. In 1979, around 160,000 Azerbaijanis were living in Armenia (USSR Central Statistical Office 1984). By early 1990s, most of these people were deported from Armenia and relocated predominantly to Azerbaijan (De Waal 2003). As Armenian armed forces advanced beyond Mountainous Gababagh in 1993-1994, Azerbaijan's IDP population rose to more than half a million (World Bank 2009). Such large refugee and IDP population rapidly became one of the largest burdens on Azerbaijan's state budget.

Elchibey government pursued considerable political and economic liberalization and introduced several critical reforms. First, it introduced laws on political parties, freedom of press, and education. Education reform, particularly the introduction of standardized and centralized university entrance examinations, brought Azerbaijan's education system closer to Western standards and eliminated widespread corruption associated with admissions (Interfax 1992). This reform, in conjunction with several victories in the war with Armenia, immediately increased Elchibey government's popularity (Altstadt 1997; author's interview with Isa Qambar).

Second, the government followed an almost full-scale price liberalization, introduced a national currency, and initiated reforms in the banking sector (Masimov 1999; Altstadt 1997). Third, some enterprise reform was initiated. For example, the largest and most influential state enterprise – the State Oil Company (SOCAR) – was significantly restructured, with same-mandate departments unified (author's interview with Sabit Baghirov). Finally, the government designed a privatization programme and took first steps towards its implementation. In 1992, State Property Committee was established to manage privatization. Early in the following year, the parliament passed the law on privatization and the state started implementing small-scale privatization (Masimov 1999).

This democratic experience proved short-lived, however, and Elchibey government fell as a result of a coup in mid-1993 that brought the coalition led by Heydar Aliyev to power. Four key factors contributed to the downfall of the Popular Front coalition. First, its liberal reforms and public office appointments caused significant grumbling among powerful vested interests within Azerbaijan. Although Elchibey's ascent to power was partially due to the Popular Front's subtle pact with the Cabinet of Ministers, over time the bureaucracy underwent significant change, including the resignation of Prime Minister Rahim Huseynov, creating a large number of disgruntled people with access to financial and political resources (author's interview with Sabit Baghirov). Conservative circles, including ousted former bureaucrats and former communists within and outside of the parliament, also understood that Elchibey's liberalization, including privatization, and new parliamentary elections scheduled to November 1993 will undermine the sources of their welfare and power (author's interviews with Isa Qambar, Sabit Baghirov). Some Popular Front policies were simply sabotaged (author's interview with a former Popular Front leader). The alienated groups, although less mobilized than was subsequently thought

(author's interview with Sabit Baghirov, Zardusht Alizade), increasingly turned towards Heydar Aliyev.

Second, Elchibey government quickly became a cause for concern for political leadership in Russia and Iran. It pursued explicitly pro-Turkish and pro-Western policies and refused to join the Russia-led Commonwealth of Independent States (CIS) (Altstadt 1997). Russia was also losing its foothold since Elchibey government was pushing the Russian military forces out of the country; in fact, Azerbaijan became the first former Soviet republic to get rid of the remnants of Soviet military. Furthermore, SOCAR's draft contract with estimated profits totalling \$18 billion to develop Azerbaijan's oil fields included Western oil companies – British Petroleum, Norway's Statoil, Amoco, Pennzoil, Unocal, McDermott, Aberdeen-based Ramco, and Turkish Petroleum Company – and did not include any Russian companies, despite the interest shown by LukOil (Altstadt 1997, 140; author's interview with Sabit Baghirov). The nationalist wing in the Popular Front, including Elchibey himself, also blamed Iranian government for its policy of discrimination against the Azerbaijani minority in Iran. Iran, in its turn, viewed the strengthening Azerbaijani state and its national-democratic government as a threat to its own political stability, given the large size and geographic concentration of its Azerbaijani population³⁹ in the north of the Islamic republic, on the border with Azerbaijan (author's interview with former Popular Front leader).

Third, the difficulties of nation and state-building were exacerbated by the lack of political and administrative experience and cohesion among members of Elchibey government and subsequent intra-elite frictions (author's interviews with Sabit Baghirov, Zardusht Alizadeh; Altstadt 1997). As one of its leaders Isa Gambar, then the speaker of the parliament, admits, many in the government relaxed after initial successes (author's interview with Isa Gambar).

Finally, despite the Popular Front's policies to the contrary, economic hardships continued, leading to wide dissatisfaction among population. Against the dramatic decline in tax collections caused by the republic's involvement in conflict and general political instability (Tanzi and Tsibouris, 2000), the government in 1992 managed to constrain the budget deficit to 1.5 percent of GDP (Masimov 1999). However, wage arrears kept accumulating and inflation and unemployment rising. In 1993, the economic situation

³⁹ The estimates of the number of Azerbaijanis in Iran vary from 24 to more than 30 percent of the population (Keddie et al. 2003).

became aggravated with a decline in production of important cash crops (Curtis 1995). In addition, due to its involvement in conflict, Azerbaijan was not able to attract foreign investment, therefore lacking a possible source of external revenue (UNCTAD 2010).

The Popular Front was toppled in a coup in June 1993 by Surat Huseynov, a former wealthy merchant turned warlord, who was discharged from his position as Elchibey's representative in Azerbaijan's second largest city Ganje. The timing of the mutiny may indicate that one of its possible reasons was the impending signing of the oil contract with a consortium of Western oil companies that excluded Russia. Huseynov reportedly developed close relations with the Russian commander of the former Soviet 104th Airborne Division stationed in Ganje, the only Russian military unit remaining on the territory of Azerbaijan (Altstadt 1997). He also enjoyed the support of several criminal leaders, including an influential criminal authority Ruslan Rzayev⁴⁰ (Mammadli 2002). The Russian garrison leaving at the end of May 1993 reportedly left a large part of its vehicles and ammunition under Huseynov's command, indicating a high probability of Russia's involvement in stirring the rebellion (Altstadt 1997; Sammakia 1993).

Once the news of a mutiny reached the republic's leadership, they called on Heydar Aliyev to mediate the conflict and stabilize the situation (author's interviews with Eldar Namazov; Zardusht Alizadeh). Huseynov marched on the capital Baku and after a siege the city, Elchibey left to his native village in Nakhchivan. Isa Gambar resigned as a speaker of the parliament and was replaced by Heydar Aliyev, who under the constitution became the acting president. Surat Huseynov became Prime Minister (Sammakia 1993). Seizing the opportunity, in August Aliyev held a referendum of confidence to the elected president. A vast majority of population expressed no confidence in Elchibey (United Press International 1993). Aliyev then held a presidential election in October, running against two unknown candidates, and officially secured 98.8 percent of the votes (Altstadt 1997: 129; Ismailov 1999).

Aliyev moved to normalize relations with Russia by joining the CIS and quickly solving several other problems that created tensions between the two countries, such as extraditing to Russia five Russian servicemen sentenced to death (Agence France Presse 1993; BBC 1993). He also explicitly sought Russia's help in mediating the peace talks with Armenia. In May 1994, with Russian and CSCE mediation, the ceasefire agreement was reached (ITAR-TASS 1994). Russia, in its turn, expressed new interest in joining the

⁴⁰ Ruslan Rzayev was known by his nickname "Zobik."

consortium to develop Azerbaijan's oil fields, which Azerbaijani authorities started to consider (TURAN 1993). However, Aliyev manoeuvred carefully and, understanding Russia's limitations at the time, did not make excessive concessions, such as allowing the return of Russian troops to Azerbaijan (AzTV 1993).

Immediately after coming to power, Aliyev also halted all currency transactions with Western oil companies and declared that he will review the contracts awarded earlier by Elchibey, which were to be signed later in the year (Kuliyev 1999; AFX News 1993; Agence France Presse 1993). Aliyev justified this decision by saying that the terms of the contract did not correspond to Azerbaijan's national interests. Subsequent negotiations, led by Aliyev's representative Marat Manafov, who allegedly used intimidation tactics (LeVine 2007: 181-193), resulted in an increase in the signature bonus from \$300 million to \$500 million and initially increased Azerbaijan's share of profits to 80 percent (Mortished 1993). However, having secured his power, Aliyev did not feel compelled to sign the contract immediately, instead dragging the negotiations for another year. The likely reasons for such a delay were the new administration's desire to extract and trade concessions from different parties and the need to address in a balanced way the interests of key states behind the oil companies. Finally, in September 1994, the agreement dubbed by the press "the deal of the century" was signed. It envisaged \$7.4 billion investment over 30 years. Russia's Lukoil received a 10 percent share in the contract (The Associated Press 1994; Bird 1994; Nassibli 1998).

Elchibey's departure and resignation of several key members of his team largely presented Aliyev with a close resemblance of *carte blanche*. Aliyev used the political, economic and military failures of his predecessors to justify "radical and serious measures" (AzTV 1993). He swiftly moved to build a broad coalition that included many influential political and economic actors, excluding only some top Popular Front leaders. While Surat Huseynov was appointed prime minister (Sammakia 1993), the main financier of Heydar Aliyev's comeback, former deputy prime minister and head of the Main Oil and Gas Processing Office Rasul Guliyev was made the speaker of the parliament (ITAR-TASS 1993). Elchibey's advisors and several regional leaders retained their positions because they agreed to work with Aliyev (author's interview with Eldar Namazov). Most of Aliyev's new appointees, however, were former communist party executives (author's interview with Eldar Namazov). Overall, Aliyev began to steadily reverse political liberalization.

Using the momentum created by the general dissatisfaction with the Popular Front among the population allowed Aliyev to repress several top Popular Front leaders. The speaker of the parliament Isa Gambar, former Minister of Internal Affairs Iskandar Hamidov, former Minister of Foreign Affairs Tofiq Gasymov, and former Minister of Defense Rahim Gaziyeu were arrested. Many local Popular Front leaders and journalists were also detained (Altstadt 1997; Interfax 1993; Alibeily 1993). An attempt by a southern warlord Alikram Humbatov to establish a separatist Talysh-Mughan republic was put down and his units were disarmed (Mamedov 1993).

4.3.3.3 Regime outcomes

By September 1994, the political regime in Azerbaijan emerged as a mild autocracy. Executive recruitment became uncompetitive, presidential powers increased while other political forces had slight to moderate limitations on the president's rule, and political participation remained factional.

4.3.4 Kyrgyzstan, 1989-1992

4.3.4.1 Political and economic environment

Despite high economic growth in the 1980s, before the break-up of the Soviet Union Kyrgyz SSR was among the poorest republics – with GNP per capita (PPP) of \$3180 in 1989 – and was highly dependent on Union subsidies and inter-republic trade. Between 1985 and 1989, GDP grew by an average of 5.2 percent per year (de Melo et al. 2001: 5; see also World Bank 1993). The key source of this growth was livestock production, which during this period grew by more than 6 percent per year owing largely to the efforts by the Soviet Union to increase meat and dairy product output and higher prices for agricultural goods (World Bank 1993).

However, as consumption and investment grew faster than GDP, the republic ran deficits in inter-republic and hard currency trade. The combined deficits amounting to about 20 percent of GDP were covered by transfers from the Union and capital inflows to Union-controlled enterprises located in Kyrgyzstan (World Bank 1993: 6, author's interview with presidential advisor on economic affairs). While direct transfers from the Soviet budget represented a large contribution to the government revenues of all Central Asian republics (Daviddi 1995), Kyrgyzstan, unlike donor Kazakhstan and Turkmenistan, was a largely subsidized republic (World Bank 1993: xv). In addition, in the 1980s Kyrgyzstan, like Kazakhstan and Turkmenistan, was entitled to retain all of its turnover tax (Daviddi: 31). At

the same time, although external trade constituted a large part of Kyrgyzstan's economy, the republic's dependence on Russia in inter-republic trade was less pronounced (45 percent in 1987) than those of Kazakhstan (62 percent), Azerbaijan (57 percent) and Turkmenistan (48 percent) (Metcalf 1997: 534).

Kyrgyz SSR was also the third least urbanized republic in the Soviet Union, being ahead of only Tajikistan and Uzbekistan. In 1990, only about 38 percent of its population was urban (de Melo et al. 2001: 5), while agriculture comprised 33 percent of the republic's total output (EBRD 2008). Although the officially reported employment in agriculture was 34 percent, this number excluded a sizeable labour force engaged in the expanding private sector (International Labour Organization 2008). However, despite the growing livestock production, in late 1980s Kyrgyzstan could not increase its output of agricultural crops and was a large net importer of grains (World Bank 1993: xv).

Kyrgyzstan's industry, in contrast, was relatively small. Between 1985 and 1990, industrial production grew by an average of 3.3 percent year on year and in 1990 contributed about 28 percent to the republic's GDP (World Bank 1993: 5). Light industry and mechanical and electrical engineering formed its backbone and production of nonferrous metals, such as gold, mercury, antimony and uranium was expanding rapidly (World Bank 1993). Yet, the latter contributed only about 5 percent to the total output in 1990. Despite exporting hydroelectric power to its neighbors – giving Kyrgyzstan one of the few levers over them – the republic was also a substantial oil and gas importer (World Bank 1993: xv). Industry and mining also employed a relatively small part – 19 percent in 1990 – of the labour force (World Bank 1993: 4).

Like in other parts of the Soviet Union in mid-1980s, Gorbachev forced a long-serving Kyrgyz SSR Communist Party Secretary Turdakun Usubaliyev to resign. Usubaliyev was replaced by Absamat Masaliyev, reportedly one of the few leaders from Kyrgyzstan that Gorbachev simply knew personally (Olenev 2006). Despite the new discourse and harsh criticism of the “dictatorial manner” of his predecessor (Gleason 1997: 58), Masaliyev resisted Gorbachev's reforms, tacitly supporting Gorbachev's former ally and later powerful opponent Yegor Ligachev, and mobilizing local security forces against potential dissent (Huskey 1997: 250). One of the key reasons was the elite's fear that political liberalization advocated by *perestroika* and *glasnost* would ultimately cost them their jobs. Second, the market reforms deliberated upon in Moscow meant that Kyrgyz SSR will soon have to rely on its own resources rather than generous subsidies from the centre.

Finally, the ruling elite worried that without tight control the diverse Kyrgyz society and ultimately the state would crumble. This concern was not unfounded. Indeed, Kyrgyzstan had been the most ethnically fragmented Soviet republic (Fearon 2003; Alesina et al. 2003). While Kyrgyzs constituted 52 percent of the population, after several waves of migration Russians constituted 22 percent of Kyrgyzstan's population in 1989 (USSR Census 1989). Together with other Slavic peoples, they mainly filled the ranks of the industrial class, while ethnic Kyrgyz were either employed in state administration or were agrarians (Huskey 1997: 249). Russians were also mostly concentrated in the northern Chui province of the republic (Gleason 1997: 94-95), particularly in the capital Frunze⁴¹, although this concentration was not as pronounced as in the case of Kazakhstan. In addition, 13 percent of the population were ethnic Uzbeks (USSR Census 1989), who were concentrated in the southern Osh province that is adjacent to Uzbekistan and geographically part of the ethnically diverse Ferghana valley. Other ethnic groups included Ukrainians (2.5 percent), Germans (2.4 percent) and others (USSR Census 1989).

4.3.4.2 *Causal mechanisms*

As elsewhere in the Soviet Union, March 1989 elections to the Congress of People's Deputies - the first-ever contested elections in the USSR (Brovkin 1990) - brought a certain degree of political liberalization to Kyrgyz SSR. Despite being managed by the Kyrgyz Communist Party apparatus, elections allowed several tacit Masaliyev opponents who had direct ties to Gorbachev to join the Kyrgyz delegation (Huskey 1997). February 1990 elections to the Supreme Soviet of Kyrgyz SSR also resulted in a relatively lower fraction of deputies representing the Communist Party (Gleason 1997). Political liberalization went hand in hand with the rise in nationalist sentiment among Kyrgyz who felt disadvantaged economically and politically by Russian and Soviet rule. In 1989, the Kyrgyz government drafted a law which would make Kyrgyz the official language while keeping Russian as a language of inter-ethnic communication (Sovetskaya Kirgiziya 1989). Political participation on grassroots level also started to grow, particularly after a large group of young people, who initiated settlements in the outskirts of Bishkek, formed an informal association *Ashar* (Mutual Assistance) (Huskey 1997). In May 1990, Ashar, Asaba and several other associations formed the first large public pro-democracy organization Democratic

⁴¹ Restored to historic name - Bishkek - in 1991.

Movement “Kyrgyzstan” (DMK), which claimed 10,000 members and quickly spread to different parts of the republic (Huskey 1997: 252).

A major crisis in summer 1990 proved crucial for the fate of Masaliyev administration and entailed a drastic change in the political system of Kyrgyz SSR. In June 1990, a major ethnic clash erupted between Kyrgyz and Uzbeks in the southern Osh region, reportedly over what was seen by local Kyrgyz as unfair distribution of land (The Associated Press 1990; TASS 1990). The party apparatus was not able to respond adequately and violence lasted for a month, eventually claiming around 250 lives. The riots stirred unrest in the capital Bishkek, where protesters, partly mobilized by emerging opposition forces, came to demand the resignation of the government. The government did not resign, but Masaliyev’s reputation was shattered. Furthermore, he and the party leadership were scrutinized by a chain of officials arriving from Moscow to assess the situation (Huskey 1997: 252).

The weakness of Masaliyev’s position became evident in the first presidential elections held in the Supreme Soviet in October when he failed to get a majority vote. This was largely due to a split within the party. Pro-reform Gorbachev supporters within the party aligned with the DMK and 30 Russian-speaking deputies to oppose the conservatives led by Masaliyev (Sneider 1991). After renomination process and in the fourth round of voting, a surprise candidate – the president of the Kyrgyz Academy of Sciences Askar Akayev – emerged a winner (Gleason 1997: 60). Although a relative newcomer to the political scene, Akayev had managed to build ties with Gorbachev and enjoyed a reputation of a pro-market reformist. During Osh riots, he was the only leader in the republic who openly criticized Masaliyev and his administration. Evidently, however, his candidacy for the presidency was a compromise, endorsed by Gorbachev through reformist Kyrgyz deputies in Moscow and by former Kyrgyz Communist Party Secretary Turdakun Usubaliyev (Spector 2004).

Immediately after being elected, Akayev declared “normalizing inter-ethnic relations” and “ensuring civil accord” as his first priorities (Mainayev 1990). He moved promptly but carefully to expand his coalition of supporters. As one of the first steps, Akayev met DMK hunger-strikers, started to co-opt all factions except staunch hard-liners through tactical concessions, and actively incorporated leaders of ethnic communities into his government (Brown 1990; Huskey 1997; Spector 2004). Combined with his popularity both within and outside Kyrgyzstan, this contributed to a lack of major frictions between

the new executive power and the Supreme Soviet (Huskey 1997). The failed August 1991 putsch in Moscow, which Akayev promptly condemned, and subsequent unsuccessful plot in Bishkek by conservatives provided Akayev with an opportunity to tighten his grip on power and shift power to the presidency (Slovo Kyrgyzstana 1992). The Communist Party's status was lowered to that of an ordinary public association and its main assets were seized (Bayalinov 1991; Agence France Presse 1991). Several days later the Supreme Soviet voted to declare independence from the USSR. Finally, a month later, in October 1991, Akayev won the presidency of now the Republic of Kyrgyzstan in direct election where opposition candidates were not allowed to register (Brumley 1991).

Several intertwined economic problems proved a challenge for Akayev's centralization of power. First, beginning from 1990, Kyrgyzstan was increasingly exposed to disruptions in inter-republican trade, which inevitably affected production. (World Bank 1993; Economist Intelligence Unit 1996). Industrial production slowed down by 1 percent in 1990 and remained flat in 1991, supposedly owing to fewer disruptions in supply of inputs than in other republics (World Bank 1993: 5). However, large inter-republican payment arrears started to accumulate, as elsewhere in the Soviet Union. More importantly, agricultural performance deteriorated in 1991 leading to a sizeable decline in GDP (World Bank. 1993: 5). Inflation was rampant. The situation was temporarily eased by expenditure adjustments and transfers from the centre. Due to a sharp decline in revenues, the government made a moderate cut in consumption and significant cut in investment expenditures. Combined with the transfers from the centre, amounting to 11 percent of GDP, this resulted in a budget surplus of over 4 percent of GDP in 1991 (World Bank 1993: 8).

However, in 1992, Soviet subsidies stopped and transfers from the centre to union-level enterprises began to dry out (World Bank 1993; Economist Intelligence Unit 1996). In 1992, once USSR ceased to exist, union grants also stopped. Although the Central Bank of Russia continued to provide currency to Kyrgyzstan, the supply was fluctuating and often inadequate (World Bank 1993). Exports to non-FSU were meager at 2 percent of total exports in 1991-1993 and brought currency in the amount equivalent to a tiny fraction of convertible currency imported. The country's foreign exchange reserves were also insubstantial (World Bank 1993: xv).

Third, major rises in the prices of inputs, particularly oil and gas, caused disruption in operations of state enterprises (Economist Intelligence Unit 1996). As Kyrgyzstan

produced extremely small amount of fuels⁴², it relied heavily on imports of these products from other Soviet republics, at considerably subsidized prices. With the disintegration of the Union, FSU importers aligned their prices with world prices and Kyrgyzstan had to pay more than fifteen times the price it used to pay for these products (Economist Intelligence Unit 1996: 23). Kyrgyzstan's agriculture and particularly industry suffered as a result. For example, in 1992, industrial output declined by more than 20 percent year on year (World Bank 1993: 9).

Fourth, between 1990 and 1992 Kyrgyzstan experienced a series of earthquakes and floods that destroyed infrastructure and tens of thousands houses, left more than 60,000 people homeless, and significantly damaged cotton fields in several southern regions (Xinhua General News Service 1990; The Associated Press 1991, 1992; Ryabushkin 1992). Agricultural output was still relatively good, owing to favourable grain harvest. However, the significant decline in all other sectors resulted in a 24 percent decline in GDP in 1992 (World Bank 1993: 9). Certainly, the available evidence may lead to an overly gloomy depiction that does not account for the disruption in statistical reporting, implications of privatization, and widespread barter arrangements. Still, most accounts agree that economic hardships were building up rapidly.

Finally, economic problems were exacerbated by a sizeable overlap between Kyrgyzstan's ethnic groups and economic specialization of their members (Seregin 1992; Gleason 1997). These drastic changes affected economic sectors differently, entailing significant variation in the welfare of different ethnic groups. Reportedly, the service sector where mostly the Caucasus and non-Turkic Kyrgyz were employed did not suffer much while the primary agricultural sector where mainly Kyrgyz were employed suffered most (Gleason 1997).

In the absence of a major source of rents that could help alleviate economic problems, Akayev's strategy in coping with the inevitable crisis and remaining in office was continuation of economic and political liberalization that started with *perestroika*. First, liberal policies, including privatization, were aimed at creating an environment conducive to increasing output in various sectors, at the same time soothing pressures from various constituent groups. Second, liberalization was seen as one of the few available

⁴² It produced around 2,900 barrels of oil per day in 1989-1992, and 143,000 tons of coal and 83 million cubic meters of natural gas in 1991 (Economist Intelligence Unit 1996, p. 23).

“commodities” Kyrgyzstan could sell in order to attract foreign aid and investment (author’s interviews with Madat Tiulegenov, Sergey Masaulov, and Emir Kulov).

Privatization was initiated with a presidential decree in November 1991 (Gleason 1997: 96). In July 1992, the parliament approved an accelerated programme of reform that envisaged closing 200 state enterprises and passing to private ownership 35-40 percent of state-owned companies, 25 percent of agriculture, 50 percent of construction, 70 percent of housing and the whole service sector by the end of 1993 (Economist Intelligence Unit 1996: 13; Gleason 1997: 96). Since most union-level enterprises were effectively taken over by management and employees, their privatization was easy. It was also profitable for the managers who purchased them at extremely low cost. As a result, privatization of these enterprises brought little revenue for the state (EBRD 2008, author’s interview with Kuban Omuraliyev). Furthermore, with soft budget constraints and little incentive to restructure, it largely failed to change enterprise behavior (Economist Intelligence Unit 1996: 13). Finally, asset-stripping by workers and managers were not uncommon (Economist Intelligence Unit 1996, author’s interview with Nookat Idrisov). Overall, privatization revenues were around 0.1 percent of GDP in 1992 and 0.3 percent of GDP in 1993 (EBRD 2008).

In agriculture, privatization was complicated by ethnic tensions. Initially, the liberalization program included passing 1.5 million hectares to private ownership by farmers. However, there were concerns among Kyrgyz in the parliament and media that more entrepreneurial and economically ambitious ethnic groups would have an advantage in privatizing lands. However, when the draft constitution designating the land and resources of Kyrgyzstan as the wealth of Kyrgyz people was presented to the president, Akayev vetoed it in the fear that it would cause a backlash among Russians and Uzbeks. As a compromise, Akayev issued a decree that designated 50 percent of privatized land for distribution to Kyrgyz farmers (Huskey 1997: 255; Gleason 1997: 96-97). During privatization, the state largely devised assignment rules, while the local level distribution decisions were made by local officials (Gleason 1997: 97). Overall, as the latter fact suggests, privatization served not so much as a way of raising revenue for the state as a means of simultaneously distributing perquisites among key constituent groups on whose support Akayev’s power rested and soothing social tensions.

Kyrgyzstan was also quick to deregulate prices. In early 1992, the government followed Russia’s price liberalization, at the same time setting controls on several commodities. However, even these controls were 4 to 7 times larger than prices for these

goods a year earlier (World Bank. 1993: 9). The liberalization largely failed to boost production and caused a doubling in prices for many goods (Gleason 1997: 97).

While economic and social hardships and early liberalization policies had a largely negative effect on public finances, Akayev administration tried to keep social expenditure at previous levels where possible. As a result of decline in output, rise in barter arrangements and increase in prices the tax revenues fell sharply. In addition, Kyrgyzstan assumed from Russia the liability for maintaining its armed forces. Third, the government had to earmark sizeable funds to mitigate the damage caused by the earthquakes and floods. To meet these expenditure requirements, the government made sizeable cuts in food subsidies, child allowance and capital investment. Most importantly, early on Akayev eliminated half of the government ministries, transferring their functions to other government units (Gleason 1997: 192). Total expenditures fell by 35 percent in real terms (World Bank 1993: 15). Initially, the government also cut the wages of government employees, but in 1992, with the inflow of currency from Russia's Central Bank, increased minimum wages and government wages several times within a year (World Bank 1993: 12). At the same time, the continued practice of extra-budgetary funds and quasi-fiscal activities by state enterprises meant that potentially large amounts of money were avoiding the budget, while allowing shadow economy to gain ground (author's interview with presidential aide on economic policy). The shadow economy in 1990-1993 was between 34 and 35 percent of GDP (Johnson, Kaufmann, and Shleifer 1997; Schneider 2003).

Akayev's public office appointments during this period reveal three related features, each corresponding to a separate objective. First, transition to a market economy, or at least economic liberalization that could attract foreign investment, required technocrats with the knowledge of market economy and Akayev did not have a choice but to lean on them (author's interviews with Zarylbek Kudabayev and Nurlan Djoldoshev). However, such cadres were in very short supply (author's interviews with Imil Akkoziyev and Nurlan Djoldoshev). Akayev began to draw cadres from academic circles, including his colleagues from Leningrad years⁴³ and his former graduate students (author's interviews with Zarylbek Kudabayev and Imil Akkoziyev). Overall, such appointments were relatively transparent and drawn cadres exhibited aptitude, if not competence in designing new institutions (author's interview with Kuban Omuraliyev).

⁴³ Akayev graduated from Leningrad Institute of Precision Mechanics and Optics in Leningrad, now Sankt-Peterburg, Russia, in 1967 and subsequently pursued a *Kandidatskaya* degree and worked there in 1970s.

Since many of these educated and high-skilled cadres were either Russians or Russian speakers, the second and related feature of Akayev's personnel policy was to retain them as much as possible. The implementation of the language law partially contributed to a massive emigration of Russians and other Russian-speaking peoples. The Slavic population of Kyrgyzstan dropped from over 24 percent in 1989 to 18 percent in 1993 (Huskey 1997: 255). Retaining the Russian or Russian-speaking managers and party functionaries and generally Russian and Slavic population was imperative mainly for four reasons. First, it would help to ensure sufficient number of competent people to undertake reforms (author's interview with Kuban Omuraliyev). Second, they constituted a large fraction of Akayev's political base. Third, as Kyrgyzstan was dependent on Russia politically and economically, Akayev was keen to avoid complicating relations with Moscow, which was exasperated by large inflows of Russian migrants from the FSU it needed to accommodate (Huskey 1997: 255). In addition, drawing sufficient numbers of non-Kyrgyz to government jobs was essential in ensuring some degree of ethnic parity, thus avoiding ethnic tensions (author's interview with Kuban Omuraliyev).

Finally, although the Communist Party was mostly sidelined, Akayev retained many former communists. This was likely dictated by three concerns. First, Akayev needed competent people to keep the state running. Second, former communists were used as a counterbalance to rising nationalist groups (Economist Intelligence Unit 1996: 6). Third, former communists represented some of the most influential informal constituencies and their retention in government was important in keeping these constituencies' support for Akayev's policies. In addition, Akayev was careful to disturb the balance that existed between different groups aligned along north-south regional cleavage. For example, the system where most *oblast akims* represented powerful local interests was kept intact (Collins 2006: 244, cited in Ryabkov 2008: 303). Overall, strong regionalism was not manifest in national-level political appointments during early 1990s (author's interview with Kuban Omuraliyev).

By the end of 1992, Akayev was able to build an inclusive coalition that ensured a large degree of political stability. The parliament represented diverse interests and included relatively sizeable opposition fractions (Huskey 1997). Appealing to the potential danger that the concentration of powers in the legislature might make it a platform for inter-tribal struggle, Akayev supported the version of the constitution that advocated a presidential

system with strong executive powers. However, this was counterweighted by his opponents' insistence on strong legislature as a means to avoid autocracy (Gleason 1997: 98).

4.3.4.3 Regime outcomes

Akayev was able to retain and consolidate executive powers to the extent possible, but the scarcity of financial means for patronage restrained his ability to pursue further centralization of power and compelled him to make concessions to influential groups through policy concessions, privatization, and public office appointments. As a result, Kyrgyzstan emerged as an "island of democracy" in Central Asia, combining the features of democracy with elements autocratic rule by Akayev.

4.4 Similarities and differences in causal mechanisms

4.4.1 Revenues

The evidence presented in this chapter indicates a number of similarities in revenue collection policies in the four countries during and in the immediate aftermath of the collapse of the Soviet Union. First, despite the differences in the amount of natural resource rents accruing to the state, the rates of taxes on goods, services, income, profits and capital gains, remained roughly at their pre-independence levels. In addition, the collection of these taxes was relatively poor, perhaps with a partial exception for Turkmenistan. Third, the taxation systems were not immediately reformed to reflect a transition to market economy, despite some liberalization in Kazakhstan and Kyrgyzstan that reflected their desire to attract FDI. Instead, the changes in taxation systems were incremental and largely copied the contemporary Russian tax legislation, reflecting the general disarray and lack of independent modern statehood experience in the four countries.

At the same time, differences in two areas signified varying policy responses to the availability or lack of quickly accessible rents. The first area is privatization and its implementation. Since the Niyazov-led ruling elite profited from gas and cotton export proceeds, it did not feel compelled to raise money or attract FDI through privatization. The governments in Kazakhstan, Azerbaijan and Kyrgyzstan, where the disruptions in industrial and agricultural production resulted in significantly lower receipts from exports, however, designed privatization programmes early on. However, the leadership in the latter group of countries pursued privatization differently. The Nazarbayev administration in Kazakhstan was considerably more aggressive in its implementation of the privatization programme than its counterparts in Azerbaijan and Kyrgyzstan. Second, excessively large capital

investments required to revive the previously developed industries in order to compete in international markets prompted the leaders in Kazakhstan and Azerbaijan to focus on areas where their countries would enjoy immediate comparative advantage and attract FDI into these sectors. This resulted in some degree of economic liberalization and a change in key revenue sources.

4.4.2 Spending

On the expenditure side, all four countries cut capital investment, in the case of Azerbaijan and Kyrgyzstan – significantly so. Public sector wages were also cut, with the exception of Kyrgyzstan where after an initial reduction Akayev increased the wages of state employees. However, public sector wages probably poorly reflected actual revenues of state officials due to increased corruption, rampant rent-seeking, and thriving shadow economy (Kaufmann and Siegelbaum 1997; Ebrill and Havrylyshyn 1999; Åslund 2002). According to some estimates, the unofficial economy's contribution to the overall economy across FSU increased from 12 percent to 33 percent between 1989 and 1994 (Kaufmann and Siegelbaum 1997). Tax expenditures in the four countries remained roughly at their pre-independence levels. Finally, continuing the Soviet trend, the leadership in all four countries allowed, if not encouraged, state enterprises to engage in sizeable quasi-fiscal activities.

However, the four countries also exhibited certain differences in their government spending. While Kazakhstan, Azerbaijan and Kyrgyzstan decreased their social spending, transfers and subsidies to households, and subsidies to state enterprises from high Soviet levels, Turkmenistan managed to keep these expenditures at the previous levels. In addition, the government in Turkmenistan was able to retain the highly opaque system of budget decision making, while the governments in the other countries, constrained by the need to generate revenues from within and outside of their countries and larger numbers of participants in the political process, were compelled to be more transparent.

4.4.3 Public sector employment and appointments

The leaders in the four countries pursued divergent policies in their government employment policies, high-level public appointments, personnel reshuffles, and hiring of non-communist technocrats. First, while Turkmenistan and Azerbaijan tried to preserve previous levels of employment in government sector and state enterprises, Kazakhstan and Kyrgyzstan undertook moderate downsizing, partly due to their privatization programmes. Second, while both ruling elites in Azerbaijan – Abulfaz Elchibey's and Heydar Aliyev's –

were based on broad coalitions with some degree of regionalism, particularly during Aliyev, the ruling elites in Turkmenistan and Kazakhstan, although exhibiting similar degrees of regionalism, were not based on broad coalitions. This was likely the result of their incumbency advantage as both Niyazov and Nazarbayev's rule was unimpeded since their ascent to power during the last years of the Soviet Union. In addition, leaders in Kazakhstan and Kyrgyzstan also tried to ensure some degree of ethnic balance in high-level executive appointments.

Furthermore, due to several consecutive changes in administration Azerbaijan experienced sizeable high-level reshuffles, which in turn resulted in more or less organized opposition groups. Due to Akayev's initial antagonism with communists, during his first years in office he also carried out some high-level reshuffles. The ruling elites in Kazakhstan and Turkmenistan, on the other hand, did not experience such changes. Finally, the four countries also differed in the size of the non-communist technocratic elite hired into government. While Niyazov did not attract such elites, Nazarbayev and Akayev were more open due to their urgent need to create market institutions and managed to attract some technocrats. In Azerbaijan, while Elchibey made an attempt to employ technocratic cadres, this trend was reversed during Aliyev. This was largely due to two factors: the composition of Aliyev's power base, which consisted mostly on former communist executives, and his less open attitude towards market institutions. This reflected his insecurity in office, given the previous history of elite and regime changes - alternative political groups that emerged due to previous political turbulence could benefit from economic liberalization, which could then be translated into political challenge to the incumbent.

4.4.4 Coercion

The four countries differed in the amount of coercion employed by ruling elites. First, while the leaders in Kazakhstan and Kyrgyzstan did not increase their governments' repressive capacity, except taking over funding of their armed forces from Russia, after several months in office Aliyev's government showed signs of increased capabilities to repress dissent. The Niyazov government's investment in repressive capacity was also estimated to be relatively high. Second, in a similar way, the actual coercion was higher in Azerbaijan than in Kazakhstan and Kyrgyzstan as well as in Turkmenistan, reflecting Azerbaijan's shaken political stability.

Table 4-2. Outcome Variables, Coalition Formation Stage

		<i>Lowered taxes?</i>	<i>Increased spending?</i>	<i>Increased public employment?</i>	<i>Increased coercion?</i>	<i>Regime outcome</i>
Turkmenistan	1989-1992	predicted: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: yes	predicted: yes; actual: no	unlimited autocracy
Kazakhstan	1989-1993	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: no	hybrid
Azerbaijan	1989-1993	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: yes	mild autocracy
Kyrgyzstan	1989-1992	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: no	hybrid

Third, the four countries differed in the level of competitiveness of political participation⁴⁴. On one side of the spectrum was Turkmenistan, where competitiveness of political participation, after a brief period of liberalization during the last year of the Soviet Union, was repressed. On the other side was Kyrgyzstan, political participation was getting close to competitive. In Kazakhstan and Azerbaijan, whose political participation competitiveness lied between these two extremes, was suppressed, yet not repressed outright. Finally, key coercion target categories varied by country. In Turkmenistan, all political opposition and independent media was repressed. In Azerbaijan and to a less degree in Kazakhstan, some members of political opposition, including journalists close to them, were intimidated or jailed. Akayev administration in Kyrgyzstan, on the other hand, was the most nonviolent and did not seem to have specific coercion targets.

4.5 Conclusion: sources of differences

4.5.1 Natural resource wealth

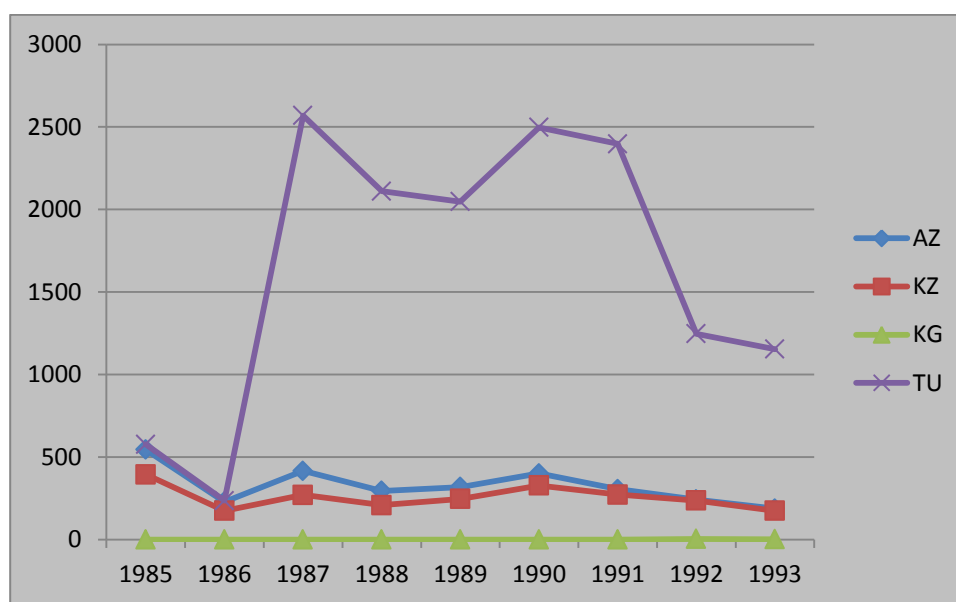
The availability of gas and cotton rents that flowed primarily to the government coffers was the key factor underpinning the incumbent ruling elite's power in Turkmenistan, enabling it to maintain the highly centralized autocratic regime. First, unlike its counterparts in Kazakhstan, Azerbaijan and Kyrgyzstan, the Niyazov government in Turkmenistan was able to sustain a relatively high level of social spending, transfers and subsidies to households, and subsidies to state enterprises. This weakened already weak constraints on the executive and contributed to low political participation. This provides a preliminary corroboration for the *rentier-state theory* argument that resource-rich countries will tend to sustain high levels of government spending. Second, while in Kazakhstan, Azerbaijan and Kyrgyzstan fiscal requirements pushed the governments to undertake privatization, in Turkmenistan easily accessible rents decreased fiscal requirements, and allowed the government to avoid privatization and, therefore, the emergence of potentially autonomous or at least semi-autonomous sources of political power. Third, these medium-to-high rents allowed sustaining public employment at Soviet-era levels and retaining the patterns of public office appointments. Finally, the natural resource rents enabled the ruling elite in Turkmenistan to maintain high coercive capacity that discouraged any dissent.

At the same time, the *rentier state* theory argumentation on causal mechanisms is weakened by two related observations in the analysis presented above. The first is the fact

⁴⁴ I use the coding employed by Polity IV project (see by Marshall et al. 2010).

that at the time the three less *rentier* states – Kazakhstan, Azerbaijan and Kyrgyzstan – sustained the levels of tax expenditures and quasi-fiscal activities by state enterprises roughly similar to the levels sustained by Turkmenistan. Second, these countries did not significantly differ from Turkmenistan in terms of taxation of non-resource sector and the changes to their taxation systems. Rather, the governments in Kazakhstan, Azerbaijan and Kyrgyzstan opted for privatization as a source of government revenue and patronage. This shows that in certain instances – in this case, the emergence of new states with a socialist legacy of public ownership of means of production – taxation might not be the only alternative source of revenues to natural resource rents. Therefore, a context-insensitive comparison of government revenues across resource-rich and resource-poor countries that omits the privatization factor, would necessarily render biased results.

Figure 4-1. Oil and Gas Rents Per Capita, 1985-1993

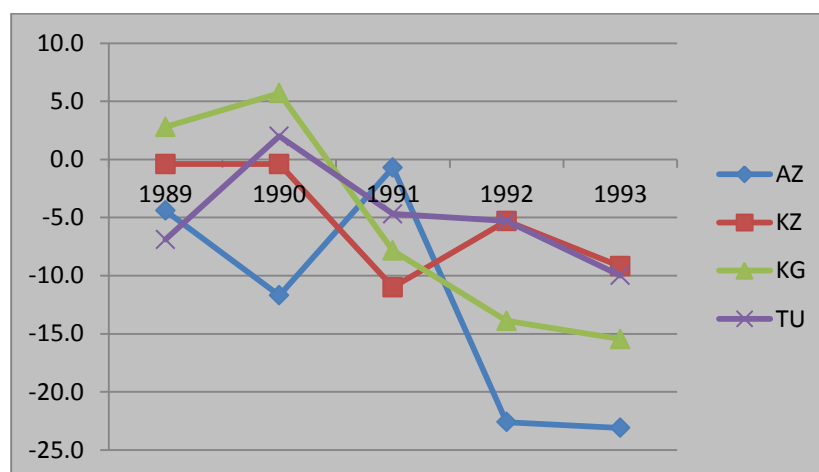


Source: Author's calculations based on Ross (2009)

The comparison of cases in this chapter also sheds light on two other aspects of resource wealth: oil reserves and natural resource diversity. First, the difference in economic and political effects they entail highlights the importance of distinguishing between two different measures of oil wealth - oil reserves and oil production. As the cases of Kazakhstan and Azerbaijan suggest, unlike oil production, oil reserves may not have an immediate effect on fiscal policy and coercion. They, however, can contribute to formal and

informal sources of patronage through often sizeable inflows not related to actual production, such as signature bonuses. The presence of reserves can also serve as a tool for incumbents to promote elite cohesion by pacifying potential challengers through their initial cooptation into government – a credible commitment that theoretically grants future access to rents.

Figure 4-2. GDP Change in Real Terms, 1989-1993



Source: EBRD SEI 2010

Second, in the case of Turkmenistan, availability of rents from other resources – rents from cotton exports – also affected the regime outcomes through their effect on fiscal policy and coercive capacity. This may have two theoretical implications. First, some agricultural commodities, such as cotton, might not always be significantly different from oil in their effects on political regime. Second, resource diversity, i.e. the reverse of dependence on single primary commodity, might not necessarily lead to less autocratic regime as implied by some scholars of *rentier state* (Dunning 2008). However, the period considered in this chapter does not provide sufficient time span to judge the validity of contesting theories regarding resource diversity. Therefore, this issue will be discussed in later chapters that analyze subsequent periods.

4.5.2 War, leadership change and transition to democracy

Post-1989 leadership change and transition to democracy formed another important group of factors that entailed differences in the causal mechanisms, even if the regime outcomes were similar. Azerbaijan's involvement in a war and ensuing political instability that resulted in three leadership changes and one brief transition to democracy was a

dynamic that significantly affected the subsequent fiscal policy, public employment, and coercion and ultimately shaped the type of autocracy that emerged in mid-1990s. First, the war and frequent leadership change disrupted the economy, thereby undermining the country's tax base. As these developments also created independent sources of political power, they also undermined the ruling elite's bargaining power in redesigning the taxation system and levying taxes. In addition, this political instability made privatization less attractive for the ruling elites than in Kazakhstan due to the presence of influential groups outside the government, which theoretically could have fortified their positions through privatization.

Second, the war entailed draining of fiscal resources through sizeable military spending and increasingly large refugee and IDP population. Third, the emergence of influential groups from outside Soviet-era *ancien régime* entailed redistributive pressures that resulted in a need to sustain larger coalitions to maintain power. The Elchibey administration, after an initial pact with a part of previous ruling elite, rapidly departed from this and in the absence of other means to consolidate its power, was overthrown. Aliyev, on the contrary, dispersed several key positions in the government to the leaders of major political groups, thereby sustaining a broad coalition until he felt sufficiently powerful to begin narrowing it down. Overall, the legacy of leadership changes and previous transition to democracy contributed to increased competitiveness and openness of executive recruitment, higher constraints on chief executive and inability to strictly tighten political participation.

At the same time, the effect of war and leadership changes on coercion in Azerbaijan was ambiguous. On the one hand, involvement in war both militarized the domestic power struggle and contributed to justifying subsequent coercions. This contributed to tightening political participation for some groups. On the other hand, the legacy of war and previous leadership changes also initially increased the costs of coercion for Aliyev given the presence of several strong political groups. In addition, dismal fiscal stance resulting from previous turbulence contributed to undermining the ruling elite's coercive capacity.

In general, the effect of war on fiscal policy and public office appointments highlights a need to include involvement in conflict as a control variable not only in regression estimates of coercion (as done by Ross 2001: 351), but also of fiscal policy and public employment.

4.5.3 Russian minorities and dependence on Russia

The third group of factors that affected the regime outcomes was the size of Russian minorities and dependence on Russia. In Kazakhstan and Kyrgyzstan, the presence of sizeable Russian minorities – and in Kazakhstan’s case, their geographic concentration and outnumbering of Kazakhs in the northern regions adjacent to Russia – put constraints on the ruling elite’s domestic exercise of its power (see Map 1 in Appendix). As protection of rights and interests of Russians in former Soviet republics quickly rose to the foreign policy agenda of new Russian authorities and turned into a tool in political struggles within Russia (King and Melvin 1999), it necessitated a relatively more liberal attitude toward these minorities in Kazakhstan and Kyrgyzstan than in Azerbaijan and Turkmenistan. While these pressures did not affect taxation or social spending, they resulted in a moderate degree of economic liberalization, particularly in Kazakhstan’s northern regions and subsidies to the industrial sector, which was at the time dominated by Russians (Bremmer and Welt 1996). Furthermore, these redistributive pressures were partly reflected in patterns of public office appointments as both Kazakh and Kyrgyz authorities, despite their programmes of national revival, strived to co-opt some ethnic Russian leaders to avoid tensions and to a certain degree prevent the departure of highly-skilled Slavs that was needed for effective functioning of state institutions. At the same time, in Kazakhstan, the sizeable Russian minority may have been one of the contributing factors to rapid privatization. There the ruling elite strived to transfer many industrial resources from under control of Russian managers and workers to ethnic Kazakh groups loyal to the ruling elite (author’s interview with Rustam Kadyrzhanov).

Second, and related, varying degrees of political and economic dependence on Russia were reflected in different levels of economic decline, which subsequently affected the four countries’ fiscal policies. Kazakhstan, which was most dependent on Russia economically as well as politically, was hit most. This contributed to a certain degree of economic liberalization that was requisite in order to encourage production and, most importantly, attract FDI. In Azerbaijan, political dependence on Russia was reflected in the regime change that brought less anti-Russian forces to power.

5 Consolidating Power

5.1 Introduction

How did the ruling elites in Turkmenistan, Kazakhstan, Azerbaijan, and Kyrgyzstan consolidate the political regimes they reconstructed in the aftermath of the collapse of the Soviet Union? How similar and dissimilar were their strategies of regime consolidation? What factors affected these strategies most and which were accountable for the differences in these strategies? This chapter surveys patterns in autocratic consolidation strategies in the four countries that took place between 1993 and 1999. It examines the shared ('interactive') effect of oil, other non-tax revenues, and key structural and institutional factors on consolidation outcomes through the causal mechanisms that are either advanced in the resource curse literature or hypothesized in this study.

The chapter proceeds as follows. In the next section, I provide a brief theoretical sketch that captures the relationship between oil wealth, other non-tax revenues, and key structural and institutional variables, on one side, and regime consolidation in the four countries, on the other. This framework draws on the main theoretical model advanced in Chapter 3 and applies the intuition behind that model to the specific cases during this period. The third section outlines individual case studies, each examining initial conditions at the start of the period, causal mechanisms, and regime outcomes in particular country during the consolidation of its post-Soviet political regime. The fourth section analyses similarities and differences in revenue, spending, public employment, and coercion as potential causal mechanisms linking natural resource wealth to regime outcomes. The fifth section analyses four key factors that were most responsible for differences in causal mechanisms and, ultimately, regime outcomes. Finally, I conclude with a brief chapter summary.

5.2 Theoretical framework

This chapter maintains that while oil wealth was an important factor behind autocratic consolidation in the cases studied here, it cannot alone account for the differences in regime outcomes. As outlined in the theoretical model in Chapter 3, what matters is not the absolute size of oil revenues accruing to the state, but its size relative to the costs of patronage and coercion. These costs, however, are a function of structural and institutional factors that vary across countries. In the cases investigated in this study, three

such variables during the period considered in this chapter were prior spread of alternative elites, size and mobility of Russian minority, and diffusion of oil production geography. I hypothesize that the costs of patronage and costs of coercion rise with the spread of alternative elites, the size and political mobility of Russian minority, and diffusion of oil production. The larger are these costs relative to government revenues and its political-administrative resources, the longer it would take for the ruling elite to consolidate its power and the milder will the autocratic regime outcome be. Conversely, the smaller are these costs relative to government revenues and its political-administrative resources, the shorter is the time needed for consolidation and the harsher will the autocratic regime outcome be.

Note that the consolidation game is different from the previous pre-oil coalition formation in three related ways. First, as the regime outsiders have been dealt with either through coercion or cooptation, the political struggle moves from the contest among alternative elites inside and outside of the government to intra-elite struggle. Second, the ruling elite is more secure in power during consolidation than during the pre-oil coalition formation since the inflow of oil or other non-tax revenues that accrue directly to the executive branch makes it more powerful as it now has more resources at its disposal for discretionary patronage and coercion. The incumbent's power is enhanced because it is the *rent-seizer* – it controls access to and provision of various rents (Buchanan 1980; Ross 2001). Accumulation of large oil revenues in government coffers creates rent-seeking in the society leading to higher demand and heightened competition for government jobs and perks. The incumbent becomes more powerful because it is on the lucrative supply side. Third, whereas earlier the ruling elite needed to maintain a large coalition, now that it's more secure it no longer needs such coalition to stay in power. Its objective now is not only to stay in power, but also minimize the number of parties among which the accruing rents should be split. The logic behind its drive to narrow its coalition is similar to that of minimum winning coalition – a coalition just about the size to stay in power, but small enough to maximize each coalition member's share of private goods associated with membership in the ruling elite (Riker 1962; Jowitt 1975). These three factors have important implications for how the actors perceive their strategic context and how the consolidation game is played.

Error! Reference source not found. provides an outline of variables that *concomitantly* explain different regime outcomes in the cases at the end of their

consolidation. Although Turkmenistan's revenues from gas declined, the country's leadership was still able to consolidate its autocratic regime. This was possible largely due to the virtual absence of tangible political opposition to Niyazov's power, relatively small Russian minority, and relatively low geographic diffusion of oil and gas production, which allowed the elite to extract resources without significant transaction costs. These three factors made both patronage and coercion inexpensive and feasible. Therefore, even despite the fall in natural resource revenues, the ruling elite was able to pursue its consolidation agenda with ease.

Table 5-1. Explanatory Variables, Regime Consolidation Stage

	<i>Oil revenues</i>	<i>Spread of alternative elites</i>	<i>Russian minority</i>	<i>Oil production diffusion</i>
Turkmenistan	medium	low	low	medium
Kazakhstan	medium	low	high	high
Azerbaijan	medium	medium	low	low
Kyrgyzstan	none	medium	medium	-

In Kazakhstan too, once oil revenues increased, the ruling elite was able to consolidate its power. However, unlike Turkmenistan where the ruling elite managed to consolidate its autocratic regime within two years, in Kazakhstan this process stretched to around five years. Moreover, the regime outcomes were different: in Turkmenistan the regime remained strongly autocratic whereas in Kazakhstan it transformed from hybrid regime into mild autocracy. While the spread of alternative elites in Kazakhstan was relatively low, the challenges created by large Russian minority and diffuse oil production geography moderated the autocratic drive.

In Azerbaijan, which also started to receive relatively large amounts of oil revenues, while alternative elites were smaller in number and exerted much less influence than before, they still participated in political process and their presence imposed slight limitations to Aliyev's rule. The small size of the Russian minority, on the other hand, did not entail any challenge to the ruling elite's consolidation. In addition, unlike in Kazakhstan, the relatively concentrated oil production near capital Baku facilitated the ruling elite's ability to extract resources without bargaining with regional or sectoral elites. Azerbaijan's political regime moved from being mild autocracy to being moderate autocracy.

Finally, in Kyrgyzstan, Akayev's elite was also able to consolidate its power to a certain extent. The large inflow of another type of non-tax revenues – foreign aid – was partly responsible for this outcome as it allowed the authorities to stabilize the economy and provide patronage to key groups given the laxity and opaqueness in administration of overseas assistance. However, the lack of easily accessible resource rents, presence of several alternative elites that emerged during the previous political liberalization, and moderately large Russian minority constrained autocratization. The emerging political regime at the end of consolidation, although more autocratic than before, was still hybrid.

The following case studies detail the impact of the explanatory variables on regime outcomes through intervening variables that are either proposed by the resource curse literature or hypothesized by this study. First, I show that process tracing reveals patterns of changes in causal mechanisms that are not in line with the prediction of the *rentier state* theory or resource-curse literature, whereas the regime outcome is. This suggests that a different causal mechanism was activated. For instance, in the case where we would expect an increase in public employment given the increase in oil revenues – Kazakhstan – there was actually a downsizing of the public sector. Second, and corollary to the previous point, I show that different combinations of explanatory variables – oil revenues, geographic diffusion in oil production, spread of alternative elites, and size and mobility of Russian minority – explain the differences in causal mechanisms better than oil alone. For instance, I show that, although all four countries increased coercion, it was more feasible in Azerbaijan and Turkmenistan and less feasible in Kazakhstan and Kyrgyzstan. Finally, one of the goals in the case studies below is to demonstrate other channels for taxation, patronage, and coercion that are tapped by the ruling elites extensively but not accounted for by existing studies of resource curse. A failure to take into account these channels and complex but comprehensible configurations they are used entails a serious risk of under-explaining the resource curse.

5.3 Case studies

5.3.1 Turkmenistan, 1993-1994

5.3.1.1 Political and economic environment

After assuming control of state institutions from the Soviet Union and having ensured the security of his rule, President Niyazov moved on to consolidate his power in late 1992. His 'Ten Years Stability' policy (*'On Yyl Abadançylyk'*), declared in December 1992,

emphasized political stability as the cornerstone of socio-economic development, thus justifying avoidance of any domestic political opposition (Tanzi and Tsibouris 2000; Kuru 2002). Consequently, the ruling Democratic Party of Turkmenistan (former Communist Party of Turkmenistan) was proclaimed the only party legally permitted to operate in the country (Kuru 2002; Lubin 1999). Although the economy started to contract in 1993, moderate natural resource rents, reserves from previous years, foreign investments in the energy sector, and lack of structural impediments for autocratization allowed Niyazov to rapidly expand his powers, further centralize policymaking, and downsize the coalition in power.

Although the economic decline was not as pronounced as in Kazakhstan, Azerbaijan, and Kyrgyzstan, GDP contracted by an average of 13.7% a year between 1993 and 1994 (Metcalf 1997: 533; EBRD 2008). Light industry experienced hardships: while it accounted for about 40% of total industrial production in 1991, its share in 1993 shrank to 11.4%, making the country even more dependent on gas and cotton revenues. Due to the collapse of inter-republican trade, agricultural output also contracted. Cotton yields fell by 9.4% since 1990 (Economist Intelligence Unit 1996). However, since cotton was purchased from domestic producers at prices far below world prices (Pastor and van Rooden, 2000) and since world cotton prices were favourable at the time, proceeds to the government remained relatively high (Shikhmuradov 1997: 3-5).

Similarly, despite increasing hardships in the oil and gas sector, the foreign proceeds were still moderate. The key problem concerned transportation and inter-republic trade in gas. As Turkmenistan had to rely on the Soviet pipeline network, it remained dependent on Russia and Ukraine for transporting its gas. Russia's Gasprom was increasingly reluctant to export Turkmen oil to markets outside the CIS and kept prices low (Lubin 1999). Furthermore, in response to an attempt by Turkmenistan to raise the price for its gas in 1992, Ukraine raised its transit fees causing a trade war between the two countries, which lasted until 1995 and caused an estimated 29% fall in gas production (ITAR-TASS 1993; Economist Intelligence Unit 1996: 64). In addition, hit by economic hardships, most FSU buyers – accounting for 69.2% of Turkmenistan's gas purchases – left Turkmenistan's gas deliveries unpaid for long periods, causing large payment arrears and increased barter trade (Economist Intelligence Unit 1996: 64). Oil production also fell, from 109 thousand barrels per day in 1993 to 87 thousand barrels per day in 1994 (BP 2010), but oil represented a small part of Turkmenistan's exports. Overall, oil and gas rents per capita dropped from \$1247 in

1992 to \$522. Still, the decline during this period was not as drastic as in Kazakhstan and Azerbaijan, and was partially offset by increasing FDI stock, which accounted for 8% of GDP (\$44 per capita) in 1994 (Plastina 2010). The government also had a cushion of reserves from previous years.

Domestic and external political environment was relatively favourable and put few constraints on the ruling elite's consolidation efforts. First, ethnic diversity remained moderate and the Russian minority decreased in size to 6.7% of the population, including in the capital Ashgabat (Gerasimov 2006; Lubin 1999). This helped Niyazov's policy of de-Russification. However, wary of spoiling its relations with Russia and any unrest among the Russian community, 40% of which voted for Russian ultra-nationalist Vladimir Zhirinovskiy in Russia's legislative elections in 1993, the government agreed to grant dual citizenship to Russians (Economist Intelligence Unit 1996: 59; Artykova 1993).

Turkmenistan's political dependence on Russia was moderate due to its need to protect its borders – and 15,000 Russian troops stationed in the country under Niyazov's jurisdiction provided that (Volkov 1993; Economist Intelligence Unit 1996: 58). But this dependence was not nearly as strong as in the case of Kazakhstan and was different from the latter in nature given Turkmenistan's sensitive geopolitical location on the border with volatile Afghanistan (ITAR-TASS 1993). In essence, Russia viewed Turkmenistan as a military outpost and, therefore, cared little about the Turkmen leadership's handling of domestic affairs as long as basic rights of local Russians were honoured (author's interview with a former government official).

Second, tribal allegiances in Turkmenistan were not nearly as much pronounced in politics as they were in cultural dimension (Ochs 1997; Lubin 1999). Niyazov further minimized potential cleavages by continuing to ensure a tribal balance through public office appointments (Lubin 1999).

Finally, the country's moderate size and established geographic system of gas production that left the capital Ashgabat in charge did not create transaction costs for the leadership in dealing with production centres after gaining independence (author's interview with an expatriate gas industry executive).

5.3.1.2 *Causal mechanisms*

Despite the fall in non-tax revenues, the government neither raised taxes, nor attempted to modernize the taxation system, nor undertook serious privatization. First, tax revenues remained low; they increased from 10.6% in 1992 to 13.9% in 1993, but then

decreased to 6.2% in 1994 due to the tax base erosion (Tanzi and Tsibouris 2000: 18). Second, the government did not attempt to reform the tax system: progress on tax reform between 1992-1998 was very little and lowest among FSU countries (Ebrill and Havrylyshyn 1999: 10; Tanzi and Tsibouris 2000: 17). Third, in contrast to the case of Kazakhstan, the government did not implement any privatization in 1993, and in 1994, privatization revenues were only 0.1% of GDP (EBRD 2008). Turkmenistan fared low in EBRD's transition indicators on large-scale privatization, small-scale privatization, and enterprise restructuring (EBRD 2008).

Confronted with a decrease in revenues, the government cut the general expenditure from 28.9% of GDP in 1992 to 9.2% of GDP in 1994 (Tanzi and Tsibouris 2000: 22). The bulk of cuts were made in capital spending. Expenditures on the economy fell from 26.4% of GDP in 1990 to 9.1% of GDP in 1993. Subsidies to the economy remained relatively unchanged (Economist Intelligence Unit 1996: 79). At the same time, in 1993, the government announced that electricity, water and gas will be free for households below a certain level. The universal benefits from the Soviet era were also mostly kept, although their timely payment was under question (Pomfret 2001: 166; Lubin 1999). Extrabudgetary spending from the funds controlled by the president and state enterprises remained rampant. In addition, the government introduced a practice of awarding large project contracts or other privileges to large contracts in exchange for undertaking social projects (Pomfret 2001: 171).

Amid economic hardships, the government kept unemployment low and, as the private sector was small, provided most employment in the public sector, keeping it bloated. Agriculture was the largest employer absorbing the increase in the growing labour force and during this period employed around 50% of the labour force (World Bank 1993). The government also entitled itself with a right to control employment in private enterprises (US Department of State 1999). Although in mid-1993 Niyazov tripled the wages, they generally remained low (Izvestiya 1993; Lubin 1999), thus encouraging corruption.

From 1993 onward Niyazov administration became more oppressive than before. Any sign of dissent, whether within the government or outside, was harshly suppressed. Disappearances and tortures of dissidents increased (Cingranelli and Richards 2008). The human rights abuses became so apparent as to make the U.S. envoy Strobe Talbott cut short his visit to Turkmenistan as a sign of protest to the arrests of four dissidents (Agence France Presse 1993). The leadership controlled all mass media, and subscription to foreign

newspapers remained severely restricted. In late 1994, the government closed the independent Russian-language weekly *Subbota*, effectively making the government controlled *Turkmenskaya Iskra* the only Russian-language newspaper in the country (Komsomolskaya Pravda 1994). Civil society organizations were equally suppressed, being allowed to function only in a few non-political areas, such as environment, culture, arts, etc.

In a move to secure his rule while resources allowed it and possibly in anticipation of instability due to growing economic problems, Niyazov initiated a referendum in January 1994, which extended his tenure until 2002 and cancelled presidential elections in 1997. The controversial poll reportedly yielded 99.8% support for Niyazov's stay in power (Shermatova 1994). Subsequently, following rumours about the president's failing health and possibility of a coup by senior government officials, Niyazov staged a large reshuffle in July 1994. The ministers of agriculture and oil and gas industry - two key officials who had access to the country's hard-currency earnings - were fired along with their deputies and other key associates (Gerasimov 1994; Selskaya Zhizn 1994; Turkmenistan 1994). Although it is unclear whether the reshuffle was a response to a possibility of a coup or whether it was staged by Niyazov, the result was unambiguous - Niyazov got rid of potential challengers from within the ruling elite. In December 1994, he further moved on to consolidate his power through parliamentary elections. A drastic reduction in the number of seats in the parliament (*Khalk Maslakhty*) from 175 to 50 partly indicated the leadership's desire to reduce the size of the ruling coalition. All candidates were nominated by Niyazov and only one candidate was put on vote for each of the 50 seats. Some regional and ethnic balance was preserved. Three Uzbeks and two Russians received seats in the new parliament (Agence France Presse 1994; Ochs 1997).

5.3.1.3 *Regime outcomes*

These policies resulted in a highly personalist autocracy. Niyazov practically eliminated potential rivals and many dissenters. He also centralized virtually all political and economic decision making. Any constraints on presidential power were effectively removed and political participation was severely restricted. Niyazov intensified the cult of his personality by sponsoring his glorification in media and in 1994, renamed himself *Turkmenbashi*, or leader of the Turkmen (Freedom House 2002).

5.3.2 Kazakhstan, 1994-1999

5.3.2.1 Political and economic environment

Unlike in Turkmenistan, Kazakhstan's ruling elite faced more challenges, including a recalcitrant parliament, ethnic tensions in the north, and tensions involving oil-producing regions and oil sector elites. In March 1994, Kazakhstan elected its first post-independence national parliament. Despite half of the seats being taken by candidates tied to Nazarbayev (OSCE 1995), the new parliament proved more unruly than the executive branch might have foreseen. Many legislators harshly criticized the government for its one-sided handling of privatization. In May 1994, the parliament passed with a majority of 111 to 28 a vote of no-confidence in the Prime Minister Tereschenko and his cabinet. However, as the president was not bound by this decision, Tereschenko remained in his position. This confrontation aggravated when a large opposition faction *Otan-Otechestvo*⁴⁵ succeeded in overriding the president's veto of two bills and even called for Nazarbayev's resignation. Nazarbayev felt compelled to replace Tereschenko cabinet when corruption charges were brought against two ministers in late 1994 (Olcott 2002). Akezhan Kazhegeldin, a wealthy businessman with extensive connections in Russia, became the new prime minister (Schatz 2004; Dave 2007).

Kazhegeldin's appointment indicated Nazarbayev's determination to pursue medium- and large-scale privatization despite the opposition by the parliament⁴⁶. Nazarbayev outflanked the parliament by a pseudo-legal ruse, resulting in its disbandment: the parliament was dissolved based on the evidence of inconsistency in a single constituency⁴⁷. Despite initial protest, many legislators followed the decision, most probably as a result of co-optation by the executive. The dissolution of the legislature enabled the president to rule by decree until the next elections nine month later (Olcott 2002; Furman 2004; Cummings 2005). Nazarbayev issued around a hundred decrees, almost all related to economy (author's interview with Tulegen Askarov). In a further move to consolidate his position, the executive held two referenda in 1995. The first one extended Nazarbayev's term in office until December 2000, bypassing the presidential poll scheduled to 1995. The second referendum adopted the new constitution, which granted president more powers,

⁴⁵ Fatherland, in Kazakh and Russian, respectively.

⁴⁶ Since Kazhegeldin is from Semipalatinsk, a city in the Russian-populated northern regions of Kazakhstan and enjoyed business connections in Russia, his appointment might have also indicated that Nazarbayev tried to ensure some balance in political representation from different regional groupings (Schatz 2004; Dave 2007).

⁴⁷ In March 1995, the Constitutional Court dismissed the incumbent parliament on the basis of a complaint by an ethnic Russian MP from Almaty, who was able to demonstrate the occurrence of significant irregularities in her district a year before.

established the dominance of the executive, and allowed dual executives in parliament and the judiciary (Furman 2004; Cummings 2005).

Nazarbayev's consolidation efforts were partly boosted by an increase in government revenues and related improvement in economic situation in the second half of 1990s. While economic hardships continued through 1995, in 1996 the government was able to achieve macroeconomic stabilization. Consumer price inflation subsided from 1877% in 1993 to 39% in 1995 and to 7% in 1997 (World Bank 2009). While GDP fell by 8.2% in 1995, it showed moderate growth of 0.5% and 1.7% in 1996 and 1997, respectively (World Bank 2009).

These developments were largely driven by four factors: substantial privatization revenues, FDI inflows, oil revenues, and foreign loans. First, cumulative privatization revenues amounted to 14.5% of GDP between 1994 and 1997 and were one of the largest in the former Soviet Union. They were also substantially larger than those in Turkmenistan, Azerbaijan, and Kyrgyzstan (EBRD 2008). Second, FDI stock per capita rose from \$119 per capita in 1994 to \$529 in 1999 and was 50% larger than in Azerbaijan, twice larger than in Turkmenistan and six times larger than in Kyrgyzstan (UNCTAD 2010). Large part of FDI flowed into the oil and gas industry, but the mineral sector also benefited. By 1997, the government concluded 120 contracts to develop Kazakhstan's gold, copper, iron, uranium, zinc, and chromite (Masanova 1999; Alam and Banerji 2000). Third, after the recession period in the wake of Soviet collapse until 1994, oil and gas rents per capita started to increase, partly due to increased production and favourable global prices (BP 2010). Finally, the promise of oil and gas windfalls allowed the government to borrow substantial amounts overseas (Jones Luong 1999).

However, these financial flows were probably not the only source of funds available to the ruling elite in Kazakhstan. Three other sources were official signature bonuses, royalties, and reportedly substantial informal payments from multinational corporations entering contracts with the government on developing the country's oil and mineral resources. The amounts of signature bonuses and royalties that corporations paid to Kazakhstan's government to show their commitment were usually undisclosed, but reportedly ranged from several dozen to several hundred million US dollars (Interfax 1995, 1996, 1997; UPI 1996; LeVine 2007: 370-371). Alleged bribes to top Kazakh officials, including President Nazarbayev, were also reportedly high. For example, in a notorious "Kazakhgate" case before a US court an American businessman and former advisor to Nazarbayev was

charged with paying bribes to senior Kazakh officials amounting to \$85 million between 1995 and 2000 (Tagliabue 2000).

Kazakhstan's economy was hit by 1998 Russian financial crisis and slumping oil prices. The GDP declined by 1.9% year on year (EBRD 2008). Economic hardships resulted in some fiscal contraction and devaluation of the currency. However, due to a large increase in proven oil reserves and higher oil prices, the country entered a boom period (Pomfret 2005).

While the prior economic decline and *Kazakhization* policy resulted in the departure of many Russians, other Slavs, and Germans, gradual improvement in the economic climate contributed to slowing down the emigration (Zardykhon 2004; author's interview with Svetlana Ushakova). The percentage of Russians declined from 37.4% in 1989 to 30% in 1999 while the percentage of Kazakhs rose from 40.1% to 53.4% (Kazakhstan State Statistical Agency 2000). Feeling more secure and possibly in an attempt to stop the emigration of Russians and other Slavs, Nazarbayev introduced a clause in the 1995 constitution that recognized the Russian not only as a language of inter-ethnic communication (as in the previous constitution), but as a language that could be officially used alongside Kazakh in state institutions and local self-administrative bodies (Republic of Kazakhstan 1995). Ethnic tensions in the Russian-populated northern regions, however, continued after a peak in mid-1990s (Olcott 2002: 78; Zardykhon 2004: 72; Blagov 2000; Peyrouse 2007).

5.3.2.2 *Causal mechanisms*

The differences in political and economic environment between Turkmenistan and Kazakhstan translated into different policies. Largely because of the previous sharp economic decline, by 1997 Kazakhstan created a foundation for the most modern tax system among former Soviet republics, excluding Baltic republics (Witt and McLure 1999). It's progress on tax policy reform between 1992 and 1998 was one of the highest in the FSU and the highest in Central Asia (Ebrill and Havrylyshyn 1999). Starting from 1995, as a result of pressure group influence the tax system was streamlined. The number of taxes was reduced from more than 40 to about a dozen (Witt and McLure 1999: 4; World Bank 2000). However, with the increased inflows of FDI and revenues, the government relaxed its efforts to develop a reliable tax collection system (Auty 1997; Jones Luong 1999). While the tax policy and taxation in some arrears showed improvement, the non-transparent system of excessive tax incentives, tax privileges, and accounting offsets continued (author's interviews with Courtney Fowler, Meruert Makhmutova, Jahangir Jurayev; World Bank

2000). Tax expenditures remained high and some were established in the permanent legislation (World Bank 2000). For example, in 1997, the government introduced legislation that authorized the grant of tax holidays for selected industries (Witt and McLure 1999: 22). Personal income taxes remained relatively low outside of the energy sector, and poor population strata were relieved of income taxes (author's interview with Tulegen Askarov; (Lesbekov 2000; Berdalina and Mustapayeva 2003). The key outcome was that Kazakhstan failed to widen its tax base and relied mostly on taxes from foreign companies involved in hydrocarbons and minerals industries (Weinthal and Luong 2001).

However, the official data on tax collection probably represents a distorted picture of tax-related financial flows to the government. First, one study found that around 80% of entrepreneurs evaded taxes since the tax burden sometimes reached 75% of profits (Amrekulov 1999). This had two implications: it forced companies to go into shadow economy and increased tax bribery (Amrekulov 1999). The lack of administrative reform in taxation only exacerbated these tendencies (Witt and McLure 1999; Weinthal and Luong 2001). Second, tax audits were increasingly used by the authorities as a political tool to punish dissenters (author's interview with Oraz Jandosov). In other words, although official tax flows decreased, this does not indicate that the ruling elite received less money from actual taxation.

As for geographic aspect of taxation, two factors necessitated some degree of fiscal decentralization that the governments in Turkmenistan and Azerbaijan avoided easily: large size of the country and disparity in productive capacity of regions. First, although fiscal decentralization mostly stopped at the oblast level (World Bank 2000), regions were able to retain all individual income tax proceeds and part of VAT, excise duties, fixed rent payments, and profits taxes (World Bank 1997: xxii). Republican subventions (subsidies) covered the remaining balances in territorial budgets (World Bank 1997: xxiii). Second, although the large difference in per capita revenue collection across oblasts (World Bank, 2000: 77) did not translate into differences in the amount of taxes that could be retained by different oblasts, it did have an effect on spending allocations for more productive regions, especially oil-producing ones (author's interview with Oraz Jandosov).

Continuing the previous trend, in mid-1990s, the government started the third stage of privatization designated to transfer the largest enterprises to private owners, including foreign companies. Although initially some enterprises in the minerals and oil and gas sector as well as those in strategic industries were thought to remain public, they were

nevertheless also privatized after the financial crisis of 1998 (Olcott 2002; Weinthal and Luong 2001). At the same time, the state retained large stakes in some of these enterprises (World Bank 2000). By the end of 1999, “75.6 percent of the economy was privatized, including 80.2 percent of small enterprises, 40.8 percent of medium enterprises, and 52 percent of large enterprises” and around 60 percent of the labour force was employed in the private sector (Olcott 2002: 137). Although large-scale privatization was slow, the revenues it brought were among the largest in the former socialist bloc (Alam and Banerji 2000; EBRD 2008). Only between September 1995 and October 1996 \$7 billion were raised (Olcott, 2002: 141).

This was also reportedly the most corrupt stage of privatization earning the label “Kazakhstan’s sale of the century” (Thoenes 1996; author’s interview with Kanat Berentayev). Although Nazarbayev and people close to him reportedly benefited most from the privatization, the programme also created a group of businessmen that subsequently formed semi-autonomous economic groups, who struggled with each other for more economic and political resources (author’s interviews with Kanat Berentayev, Aytolkyn Kurmanova, Janibek Khassan; Masanova 1999; Olcott 2002; Cummings 2005). Particularly intense was the competition among elites representing established oil and gas industry interests and those outside. The so-called oil barons of western Kazakhstan first fiercely opposed privatization, which undermined their monopoly over the oil and gas sector, and later pushed for higher prices for privatized assets. The government’s response was a mix of stick and carrot: it dismantled Kazakhstanmunaigaz, the state holding company in charge of the oil and gas industry, while on the other hand made some compromises, such as giving the regional elites in western, oil-producing regions a relatively large room to extract concessions from multinational companies, such as effectively requiring them to assume social costs (author’s interview with Oraz Jandosov, Janibek Khassan; Jones Luong 1999). When the revenues from privatization of oil and gas enterprises proved to be less than the government expected and the government realized it can extract more from multinationals, Nazarbayev replaced Kazhegeldin by one of the leaders of oil barons, Nurlan Balgimbayev, charging him with slowing down energy sector privatization and reconsidering ongoing negotiations (Jones Luong 1999; Pomfret 2005).

Despite increased revenues, *official* spending did not increase. Government spending was characterized by several trends. First, the level of general government expenditure remained relatively low compared to pre-independence period – it dropped

from 30% of GDP at independence to around 23% in the period between 1997 and 1999 (World Bank 2000:). It was still highest in per capita terms compared to Azerbaijan and especially Kyrgyzstan (World Bank 2009). Second, social spending remained at previous moderately high level with around 60% of total expenditures going to social sectors. Poor management and lack of controls remained pervasive and continued to negatively affect public service delivery at local level (World Bank 2000). However, in 1998, the government adopted a radical market-economy oriented pension reform (Alam and Banerji 2000). Third, the government reduced subsidies replacing them with direct transfers, thereby cutting administrative costs and avoiding price distortion in the market. From 1997 to 1999, the overall subsidies decreased from 4.7% of total government spending to about 1%, making them one of the smallest in the CIS. The amount of cuts, however, differed by sector; for example, subsidies for agriculture and some industrial giants, like Ferrokrom and Aliminium Kazakhstan, remained high, perpetuating inefficiencies in these sectors (World Bank 2000:)(Amrekulov 1999). Fourth, capital investment continued to fall reaching 2% of GDP by 1999. However, even that investment was largely driven by the official part of spending on the construction of Astana, the country's new capital (Alam and Banerji 2000: 6).

The transfer of the capital from Almaty to Astana was a large fiscal project aimed at gaining control over the northern regions of the country and weakening the influence of alternative elites concentrated in Almaty (Masanov 1998). Officially it cost around \$15 billion (Antelava 2006), although some analysts estimate the cost to be even higher (Olcott 2002). Despite previously reducing the burden of extrabudgetary funds from 12% of GDP in 1993 to 7% in 1995, the extremely costly construction and transfer to the new capital was largely funded through various extrabudgetary sources (World Bank 1997, xxxv; author's interview with Tulegen Askarov; Sergey Zlotnikov). As such, it offered substantial opportunities for patronage.

In order to soothe separatist tendencies, overcome the opposition of leaders of oil-rich regions, and transfer the blame from the government to foreign investors, the Nazarbayev government also institutionalized quasi-fiscal activities by multinational companies operating in Kazakhstan. According to contracts signed with the government, foreign investors assumed certain public investment and social costs in lieu of paying taxes and tariffs (author's interview with Oraz Jandosov; Jones Luong 1999; Pomfret 2006). These activities – that ranged from large capital investments in infrastructure to paying back

wages to building schools - did not follow a coherent strategy and their transparency was highly questionable due to the lack of public control (author's interview with Oraz Jandosov; Anton Artemyev; Sabonis-Helf 2004).

While in previous years Nazarbayev used the promise of windfalls to keep stability and therefore did not drastically cut the public sector (World Bank 1997, ix; Cummings 2005), after feeling more secure he started to narrow down public sector employment, reshuffle his coalition, and further centralize decision-making. In 1994-1995, the Supreme Council and later the two chambers of the new parliament were significantly reduced in size (author's interview with Rustam Kadyrzhanov). Public sector employment was reduced from 45% of total employment in 1995 to 23% in 1999 (ILO 2010). From 1996 to 1998, the government was reduced from 19 to 12 ministries in a World Bank-advocated reform. In spring 1997, the number of *oblasts* was reduced from nineteen to fourteen (author's interview with Rustam Kadyrzhanov; Cummings 2005:27). While smaller relative to those in Turkmenistan and Azerbaijan, the public sector employment in Kazakhstan was nonetheless not small by international standards, with its wage-bill consuming about 25% of total expenditures (World Bank 2000). In 1999, it employed over 1 million people, one-fourth at the republican level with the rest at the territorial level (ILO 2010).⁴⁸

Executive power's discretion over oil proceeds made it stronger than before, allowing it to have more flexibility in public office appointments. These were characterized by several patterns. First, initially opposition leaders that had relatively substantial political bases – such as Murat Auezov, Olzhas Suleimenov and Baltash Tursumbayev – were co-opted into executive or ambassadorial positions (Furman 2004; Schatz 2004; Cummings 2005). Once co-opted, however, many of these politicians became expendable (Masanov 1998). Second, since property rights remained largely insecure and state institutions provided protection for business as well as access to rents, many among the new domestic business elite were attracted to government positions (Masanov 1998). This contributed to the formation of a 'reformist camp' within the ruling coalition that would appear as a challenger later. Third, Nazarbayev brought more relatives to key positions in the state security, interior, and tax ministries, and oil and gas industry to increase loyalty (Cummings

⁴⁸ The ruling elite scattered and intertwined powers among various administrative bodies to ensure the central role of the presidential office (Masanov 1998).

2005:27-28). Fourth, while on the one hand the ruling elite gradually increased the number of Kazakhs and limited the number of Russians in the government, on the other hand it ensured some balance through creating opportunities for Russians in technocratic positions at the republican level (author's interviews with Rustam Kadyrzhanov; Svetlana Ushakova). In addition, following Nazarbayev's 'harmonization' policy, in 1995 the government sponsored the creation of the Kazakhstan People's Assembly, a deliberative political forum to represent the interests of various ethnic communities (Peyrouse 2007: 483).

The ruling elite was also more able to invest in its coercive capacity and repress its opponents. In the second half of 1990s, Nazarbayev began to expand the role of power ministries, particularly the Committee for National Security (CNS), where he appointed his son-in-law Rakhat Aliyev and nephew Kairat Satybaldy to key positions of deputy minister and deputy head of department for anti-corruption, respectively (Olcott 2002, 188; Cummings 2005). The CNS was the only republican ministry-level administration that was not short-staffed (World Bank 1997). While the number of political prisoners remained at the previous moderate level, incidents of torture increased (Cingranelli and Richards 2008). However, the ruling elite did not limit itself to outright repression, but used a variety of techniques to pre-empt potential dissent and deal with existing dissenters. For example, anti-corruption campaigns, which served the purpose of intimidating as well as eliminating competitors, became a frequent mode of coercion (Furman 2004). Various laws were introduced that invoked criminal investigations that incapacitated opposition political parties, civil society and mass media, who were also subject to intimidation and outright physical violence. A large increase in the starting bids for broadcast frequencies resulted in thirty-one stations closing down (Olcott 2002:105).

5.3.2.3 *Regime outcomes*

In 1998, Nazarbayev persuaded the parliament to reschedule the presidential elections from 2000 to January 1999. In return, MPs' terms in office were prolonged for one more year after the parliamentary elections in October 1999. The parliament also amended the constitution extending the president's term from five to seven years (Furman 2004; Olcott 2002; Cummings 2005). Nazarbayev's key rival to presidency former Prime Minister Kazhegeldin was refused registration on the basis of charges of money laundering in Switzerland. Nazarbayev emerged victorious in the elections, which the OSCE refused to

recognize as legitimate and the U.S. and Germany (heading the EU at the time) criticized (Abazov 2001; Olcott 2002; Cummings 2005). In general, executive recruitment remained uncompetitive, presidential powers increased, and political participation remained factional. By 1999, Kazakhstan's political regime turned from a hybrid regime to mild autocracy.

5.3.3 Azerbaijan, 1994-1997

5.3.3.1 *Political and economic environment*

In Azerbaijan, the signing of the major oil deal with a consortium of multinational oil companies in September 1994 was immediately followed by a series of events that caused political instability in the country. Two mutinies took place between October 1994 and March 1995, the first involving Prime Minister Surat Huseynov and Deputy Minister of Internal Affairs Rovshan Javadov, and the second led directly by Rovshan Javadov. Both were put down by Aliyev, the first one through political manipulation by Aliyev and the second one through direct repression.⁴⁹

⁴⁹ The sequence of events was as follows. One day after the signing of the contract, four high-ranking prisoners – all former military leaders, including the former defense minister and his deputy – mysteriously escaped from the Ministry of National Security jail (BBC 1994). On September 29, the Deputy Chairman of the Supreme Soviet and allegedly Heydar Aliyev's illegitimate son Afyaddin Jalilov and the head of intelligence department in the presidential office Shamsi Rahimov were killed, while Aliyev was on a visit to the United States. In a televised broadcast, the parliament speaker Rasul Guliyev linked the two murders accusing “external forces” in an attempt to destabilize Azerbaijan and calling the nation to unite around President Aliyev (Turan 1994).

On October 4, 100 special police force (OPON) members, headed by Deputy Interior Minister Rovshan Javadov, seized the office of the prosecutor-general after detention of three of their colleagues on suspicion of murdering Jalilov and Rahimov. They exchanged fire with government troops, wounding six soldiers. On the same day, a rumour was spread about a coup in the city of Ganja and three surrounding *rayons* by joint forces of OPON and armed supporters of Prime Minister Surat Huseynov, whose mutiny in 1993 brought Aliyev to power (The Associated Press 1994). Huseynov subsequently denied charges and pledged his loyalty to Aliyev. On October 4-5, Aliyev denounced the actions of OPON leaders and Huseynov associates as a *coup d'etat* and urged the nation to support him (BBC 1994). On October 6, Aliyev dismissed Huseynov from his post as the Prime Minister and the parliament approved this decision by majority vote, also relieving him from his membership in the parliament (ITAR-TASS 1994). The authorities also initiated criminal investigation against Huseynov, who managed to escape to Russia and remain there until his extradition in 1997. Several high-ranking government officials close to him were arrested. Aliyev undertook a major reshuffle dismissing Huseynov appointees from the government (Interfax 1994; ITAR-TASS 1994).

The OPON leader Javadov retained his position after renouncing most of his demands, reaffirming his loyalty to Aliyev, and pledging the support of OPON forces to guard Aliyev. The latter, in turn, pledged to examine his complaint about corruption among senior public officials (Turan 1994). In March 1995, however, Aliyev attempted to disband OPON and fired Javadov for disobeying the order. After several days of siege on OPON base in Baku, Javadov was killed, while his brother escaped to Austria and resurfaced in Iran several years later (Agence France Presse 1995).

The analysis of these events points out the importance of paying attention to factors other than oil, such as regionalism and character of leadership, in accounting for the outcomes of regime instability and consolidation. Since the initial inflow of extra oil revenues happened during the same period, it might be tempting to attribute the sole causal effect for the regime outcome to the oil factor. A plausible scenario suggests involvement of some groups in Russian government who were dissatisfied with the small stake Russia received in the oil consortium (i.e., Lukoil's 10% in the first major consortium formed in 1994 to develop Azeri-Guneshli-Chirag fields). First, on the day of the signing of the contract, Russian Foreign Ministry spokesman stated "Russia will not recognize the legitimacy of the oil contract until the Caspian states conclude a new agreement concerning the status of the Caspian Sea" (Fairbanks and Alekberov 1994). Second, during his tenure as Prime Minister, Huseynov, who was known to have ties with Russian military, also publicly expressed his discontent with the limited role given to Russia in developing Azerbaijan's oil fields (author's interview with a former government official). Third, Huseynov and former Defense Minister Rahim Gaziyeu both were able to remain in Russia after they escaped, until they were traded several years later when the leaderships of the two countries came to terms on a number of critical issues. It is ironic, if coincidental, that Huseynov's seat in the parliament was taken by the leader of the Russian community in Azerbaijan Mikhail Zabelin (RIA 1994).

A less plausible scenario suggests that Aliyev himself was behind triggering these events. This would assume that in order to legitimize sidelining potential challengers he was ready to sacrifice two very close associates, one of whom possibly his son.

What is certain is that Aliyev used this opportunity to consolidate his power by getting rid of two opponents who had armed forces behind them through capitalizing on their failure for collective action, playing them against each other, and then neutralizing them separately. He also used this opportunity to implicate and discredit other opponents, including former presidents Ayaz Mutallibov and Abulfaz Elchibey, justifying further crackdowns and consolidation of power in the presidency (BBC 1994).

Revenues from sale of oil did not play a major role in Aliyev's management of this conflict as these revenues at the time were limited and could be used for patronage among a selected number of elite members only. The analysis of the actors' backgrounds suggests that their alignment along regional cleavages could be a more important factor in the

outcome of the conflict. Surat Huseynov represented the *Ayrum* regional elite⁵⁰, while Aliyev's main power base was among the elite members with roots in Nakhchivan and Armenia. The parliament speaker Rasul Guliyev also largely represented powerful interests from Nakhchivan and he unequivocally supported the president. Lack of fragmentation in the decision to remove Huseynov from his posts could be partly due to regional affiliations of a large group of elite members in the executive and legislative branches of the government. However, while it is easy to attribute too much importance to the regionalism factor, personal loyalty to Aliyev among the political elite members was perhaps an even more important factor since more than 55% of high-level officials in both the executive and legislative branches belonged to regional groups other than Aliyev's and Guliyev's key power bases (author's calculations). Finally, Aliyev's superior political skill was another evident factor that explains the outcome of this conflict.

Nonetheless, Aliyev's discretion over increasingly large oil revenues contributed to his *subsequent* consolidation of power and narrowing of his coalition over the next three years. From 1994 onwards, the country started to experience an investment boom driven by oil-related FDI and development of construction and services (Rosenberg and Saavalainen 1998). Although the actual oil and gas production started to increase only after 1997 (BP 2010), between 1994 and 1999 the government signed 19 production-sharing agreements with foreign oil companies (Mishin 1999). Although not all of these contracts passed from exploration to development stage⁵¹, they still brought in non-sale related revenues. The exact amount of signature bonuses from these contracts is unknown, but it is estimated to have ranged between 300 and 600 million dollars⁵² (author's interview with SOCAR official). These revenues accrued to SOCAR, the state oil company that had operated outside the budget and where Aliyev appointed his son as a vice-president. They were then transferred to the state budget through a special account at the Central Bank of Azerbaijan (Rosenberg and Saavalainen 1998). Finally, to gain a share in oil contracts, multinational companies allegedly made large side payments to the ruling elite members (LeVine 2007).

⁵⁰ Huseynov had stronger affiliation with *Ayrum* rather than *Ganja* regional grouping, despite being born in *Ganja*. Both of his parents were from *Ayrum*-populated *Dashkesan* and *Gedabay rayons*.

⁵¹ Outline the stages in PSAs.

⁵² In fact, the relations between the government of Azerbaijan and multinational oil companies during this period could be characterized as a "proven reserves game:" while foreign companies tried to diminish the amount of reserves in a given field to reduce the costs of engaging in contract, the government tried to bump up the estimate in order to attract more investment and use the promise of increasing revenues as a tool in domestic politics (Kuliyev 1999).

As a result of oil revenues, although GDP continued to fall in 1995, the magnitude of its decrease – 11.8% – was about twice smaller than in the previous three years (EBRD 2008). While FDI stock per capita was \$42 in 1995 – smaller than in Kazakhstan and Turkmenistan – in subsequent three years it increased almost tenfold to \$386, surpassing Turkmenistan (\$158) and coming close to Kazakhstan (\$426) (UNCTAD 2010). Initially, most of these FDI – around 90% – flowed to the oil sector, but in 1998 the oil sector accounted only for 70% of FDI (Mishin 1999). At the same time, non-oil exports decreased by 23% between 1994 and 1997, partly due to hampered access to Russian markets as a result of the war in Chechnya and partly due to unfavourable exchange rate (Rosenberg and Saavalainen 1998: 18). Nonetheless, the country received \$3 billion in FDI, which was the largest net FDI stock in the FSU after Russia and Kazakhstan (Ebrill and Havrylyshyn 1999: 5). Azerbaijan also received an average per capita aid of \$24 between 1994 and 1998 (World Bank 2009). By 1997, the government was able to bring inflation under control and in 1997 annual inflation was down to 3.6% from 1664% in 1994 (World Bank 2009).

5.3.3.2 *Causal mechanisms*

As the revenues from oil sector increased, the revenues from taxes on goods, services, income, profits and capital gains dropped from 12% of GDP in 1994 to 7% in 1996. However, they increased again to 11% in 1999 (World Bank 2009). The amount of these non-oil revenues was only slightly smaller than in Kyrgyzstan, but significantly larger than in Kazakhstan (World Bank 2009). The progress on tax policy reform, however, was less extensive than in Kazakhstan (Ebrill and Havrylyshyn 1999). Individual income tax and enterprise profit tax – the focus of the resource curse literature – did not follow the same pattern: while the former steadily increased from 5.5% of revenues in 1995 to 18% in 1998, the latter steadily decreased from 21% of revenues in 1995 to 14.6% in 1998 (Masimov 1999).

However, as in the other cases considered in this study, tax collection provides only a partially valid picture. Three other factors should be taken into consideration. First, the government incurred large tax expenditures due to its unwillingness to eliminate unnecessary exemptions and its continued toleration of tax arrears, particularly from large state enterprises (Stepanyan 2003). Second, the extent of tax bribery was extremely high. The percentage of firms bribing frequently or more was 59.3% – the highest number among the former socialist countries. The average bribe tax as a percentage of annual firm revenues was 6.6% – the third highest, after Georgia and Armenia, among the former socialist countries (EBRD 1999). The first two factors led to the third: the shadow economy thrived

and its proceeds avoided the official state budget (Masimov 1999). However, given the small size of the country and the economy, it is reasonable to doubt that these proceeds avoided the informal budget (author's interview with an anonymous government official and a think tank head).

Despite relatively low taxes, the government started actual privatization programme relatively late, partly because of its involvement in war. Small-scale privatization was implemented in 1996 and large-scale privatization started in 1997. Official proceeds from privatization between 1996 and 1998 were small – on average only 0.4% of GDP compared to Kazakhstan's 22% (EBRD 2008). Privatization and different actors' access to it was uneven across the sectors. 50% of privatized enterprises were in the services sector, 10% in trade and food industry, and only 3% industrial enterprises (Masimov 1999). The financial sector remained largely under government control due to Aliyev's apprehension as to the possible consequences of allowing foreign capital in the financial and banking sector (author's interview with a Chamber of Audit official). Only one of the four large banks was privatized – International Bank of Azerbaijan (Masimov 1999). Foreign investors' participation was circumscribed to a few sectors, such as agricultural product processing enterprises (Masimov 1999). Finally, in contrast to the experience of Kazakhstan, the energy sector in Azerbaijan was not privatized and the three major energy companies – the state oil company (SOCAR), the power company (Azerenergy), and the gas distribution enterprise (Azerigaz) remained under government control (Petri and Taube 2003: 20; Gray 1998).

Privatization of medium and large enterprises was largely a quiet *nomenklatura*-dominated process, which either legalized informal property rights over these enterprises by their management or distributed state property among ruling elite members or their cronies (Bayramov 2001; Masimov 1999). Moreover, the programme not only failed to separate political power from the economy, but married them further (Masimov 1999). Nor was it able to bring about efficiency in the privatized enterprises. Nonetheless, private sector share in GDP increased three times more rapidly than in Turkmenistan (EBRD 2008).

As in the case of Kazakhstan, despite the rise in oil revenues, general government expenditure remained the same in per capita terms, and even decreased as a percentage of GDP from 45.9% in 1994 to 22.5% in 1997 (Tanzi and Tsibouris 2000: 22; World Bank 2009). The government, however, increased spending on state bodies from 12.7% of general government expenditure in 1995 to 17.4% in 1998, although, paradoxically, official wages of government officials and public sector employees remained very low, encouraging

corruption (Masimov 1999). Similarly, while the investment in economy decreased from 11.1% in 1995 to 2.8% in 1998, social protection expenditures increased from 8.1% in 1995 to 13.1% in 1998 (Masimov 1999). In short, while the general government expenditure remained the same or even decreased – depending on which denominator to rely on – social spending and spending on state bodies increased.

As with the revenue side of fiscal policy, establishing the true size of spending is made difficult by extra-budgetary funds and quasi-fiscal activities (QFA) of state enterprises and the central bank. The QFAs in the energy sector amounted to 22% of GDP in 1999 – the largest in the FSU (Alam and Sundberg 2002: 20; Petri and Taube 2003). SOCAR accounted for most of quasi-fiscal activities. It subsidized many state-owned enterprises through low energy prices, preferential tariffs, and toleration of payment arrears and provided extensive social safety nets for the population through funding schools, hospitals, etc. (Petri and Taube 2003). Mispricing accounted for 75 percent of energy QFAs (Petri and Taube 2003: 24). It is notable that not only state-owned enterprises but also privatized enterprises accounted for most exemptions and arrears (Gray 1998). Mispricing and payment arrears in turn led to tax arrears and barter arrangements (Petri and Taube 2003: 23).

On the political front, the government held parliamentary elections in 1995, characterized as neither free, nor fair. It resulted in Aliyev's New Azerbaijan Party (NEP) and other pro-government parties and individuals taking majority of seats. At the same time, unlike in Turkmenistan, Azerbaijan had around 60 registered political parties and opposition parties received 10 seats in the parliament (Ismayilov 1999; Azerbaijan Central Election Commission 2010). One of two major opposition parties, *Musavat*, was not allowed to run in the elections (Arifoghlu and Abbasov 2000). The new parliament was largely rubber-stamping the executive's decisions and its powers were reduced by Aliyev in the 1995 constitutional referendum, just before the parliamentary elections. This change particularly affected personnel decisions – according to the new constitution many cabinet and other appointments did not require the parliament's approval. Nonetheless, in its first year this parliament exercised a certain degree of control over the executive in some policy and major budget decisions due to the speaker Rasul Guliyev's influence. The parliament not less than presidential office was a major spot where various interest groups lobbied for their interests (Arifoghlu and Abbasov 2000). However, by 1996, Aliyev was able to sideline Guliyev, who resigned and went into exile in the United States. This was followed by reshuffles in the government and ousting of Guliyev's allies. Guliyev's departure signified

Aliyev's narrowing the coalition in power and limiting the number of key actors who could compete for access to oil rents. While Aliyev concentrated most decision-making in the presidential *apparatus*⁵³, he sustained relatively high level of public sector employment, which accounted for 46.5% of total employment - twice higher than in Kazakhstan and Kyrgyzstan (ILO 2010). However, most of the public sector did not get access to oil rents, but access to 'contrived rents'.

Aliyev's efforts to consolidate his power included coercion. Between 1994 and 1997, the number of political prisoners, killings and incidents of torture against regime opponents increased (Cingranelli and Richards 2008). Although official spending on law enforcement decreased as a percentage of the budget, three other factors not only compensated, but probably surpassed the official spending's contribution to repressive capacity. First, corruption in law enforcement agencies was endemic, so low wages and allotments probably did not reflect the actual extent of money flows within this system (author's interview with a government official). Second, despite the ceasefire with Armenia over Nagorno Karabagh, the defense budget increased from 11.6% of total spending in 1995 to 16.5% in 1998 (Masimov 1999). Given the blurriness of the line separating the use of force internationally from its domestic uses in some countries, this is an important factor. Third, while Aliyev got rid of paramilitary units created by previous involvement in war and of many established criminal authorities, the services of others were increasingly used in political struggle. These groups would naturally be funded through means other than official sources. A leader of one of the most notorious of such groups businessman Husseyn Abdullayev from Nakhchivan was believed to maintain a small private army of 500-800 men recruited from among young unemployed people from his region, who were deployed from 1997 onward in repressing demonstrations and rallies (Seyidov 2006: 111).

Although it is hard to attribute blame to any specific party given the mysterious nature of these affairs, it is plausible that high-level ruling elite members were involved in some of the killings of challengers within and outside the ruling elite. In 1996, Ali Antsuhskiy, an MP businessman who was the informal leader of the Avar community in Azerbaijan, was killed. Antsuhskiy allegedly controlled a lucrative safe haven for drug and weapons trafficking on Azerbaijan's border with Russia and Georgia. A year later, in 1997, the deputy chairman of the ruling New Azerbaijan Party, famous academic, hero of the Soviet Union, and Aliyev's subtle opponent Ziya Bunyadov was killed (Alizade 2006: 82).

⁵³ President's office, as referred to in most of the former Soviet republics.

With the inflow of money and implicit political support from the United States and European countries, the ruling elite in Azerbaijan became less dependent on Russia. While initially Aliyev co-opted into high-level positions the politicians with strong ties to Russian government, later they were gradually disposed of. Former Secretary of State Lala-Shovket Hacıyeva, who enjoyed links with the Yeltsin administration, was forced to resign as early as 1994. Starting from 1996, Azerbaijan's government championed the formation of the GUUAM group of five former Soviet republics – Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova. The organization was formally founded to strengthen their independence and tacitly, to defy Russian encroachment into their affairs.

5.3.3.3 *Regime outcomes*

By 1997, the political regime in Azerbaijan developed from mild to moderate autocracy. The key positions were increasingly filled through selection by the ruling elite rather than through elections and remained closed to outsiders. Aliyev was able to reduce limitations in his power from various formal and informal institutions. Political participation became more restricted than in the previous periods. Initially the ruling elite overcame the collective action problem and formed a broad coalition to depose the previous government. However, once secure in power, Aliyev was able to gradually get rid of key challengers and narrow the coalition to what can be regarded as the minimum winning size. While revenues from *oil sales* did not play a major role in Aliyev's defeat of his opponents in 1994-1995, his access and control of increasing oil revenues defined broadly – played a large role in his subsequent power consolidation.

5.3.4 **Kyrgyzstan, 1993-1996**

5.3.4.1 *Political and economic environment*

In Kyrgyzstan, until late 1993, President Akayev was able to keep his control as he faced a divided opposition consisting of non-influential nationalist parties and previously discredited communist *nomenklatura* members. However, with deteriorating economic conditions Akayev's grip on power was weakening as the opposition groups were gaining ground in the parliament and challenging the president. The confrontation developed into an open conflict after an illegal gold dealing that possibly involved Akayev was discovered in July 1993 (BBC 1993). The government was forced to resign in December (United Press International 1993). Akayev's former strongman and ally Feliks Kulov also resigned from vice-presidency. In response Akayev called a referendum of confidence in himself to January

1994, but in the meantime co-opted two communist leaders to leading positions in the government. He appointed former prime minister of Kyrgyz SSR Apas Jumagulov as prime minister and the leader of the communist party Jumgalbek Amanbayev, as deputy prime minister (Economist Intelligence Unit 1996).

The rigged referendum in early 1994 lent 96.2% of confidence vote to Akayev, who spent the subsequent two years to consolidate his position by using leverage on parliamentarians who depended on the executive, such as regional governors and heads of local executives, to sabotage the parliament's work (Interfax 1994). The conflict escalated until September 1994 when the government resigned and the parliament was called off (ITAR-TASS 1994; Shermatova 1994). Combined with Akayev's harassment of mass media, the dissolution of the parliament allowed the president to pass several economic reform decrees and control both the elections to the new, smaller parliament and the constitutional referendum to extend presidential powers (author's interviews with Madat Tiulegenov, Kuban Omuraliyev).

Akayev's success in consolidating his position can hardly be explained by economic factors, at least in the initial stages of consolidation, since it coincided with adverse economic situation. Economic conditions worsened in 1993 and 1994, although showed improvement in 1995 and 1996. Annual GDP per capita dropped by 15% in 1993, 20% in 1994, and 6.5% in 1995, and increased by 5.5% in 1996 (World Bank 2009). It remained the lowest among the four countries investigated in this study (World Bank 2009). Revenues from exports of electricity were low – 11% of merchandise exports in 1995 and 15% in 1996, more than twice smaller than in Kazakhstan and more than four times smaller than in Azerbaijan and Turkmenistan (World Bank 2009). The minerals sector accounted for about 10% of GDP (author's interview with Zarylbek Kudabayev). The country's FDI stocks per capita increased from \$2.2 in 1993 to \$41 in 1996 at current prices and current exchange rates, approximately three times smaller than FDI stocks in Turkmenistan, five times smaller than in Azerbaijan, and six times smaller than in Kazakhstan (UNCTAD 2010). The country was also borrowing extensively: external debt stocks increased from 15% of GNI in 1993 to 64% of GNI (40% of GDP) in 1996 (World Bank 2009: 32; Economist Intelligence Unit 1996).

Foreign aid inflows, on the other hand, were considerable and were easily tapped by the country's leadership. In fact, Kyrgyzstan received the highest foreign aid per capita in the CIS. In 1993, the foreign aid per capita of \$34 for Kyrgyzstan was already twice larger

than that for Azerbaijan, three times larger than that for Turkmenistan and twenty times larger than that for Kazakhstan (World Bank 2009). In 1996, Kyrgyzstan's foreign aid per capita of \$58 was more than three times larger than that for Azerbaijan, six times larger than for Kazakhstan, and eight times larger than for Turkmenistan (World Bank 2009). By late 1990s, the foreign aid at times reached one third of the state budget (author's interview with Madat Tiulegenov). Accruing mostly to the government, it enabled the government's autonomy in monetary and fiscal decisions by supporting Kyrgyzstan's currency and covering large budget deficits (author's interviews with Zarylbek Kudabayev, Nurlan Djoldoshev). Despite being carried under the informal slogan "money for democracy" or "money for economic liberalization", the foreign aid in the early years fell short of achieving these goals due to non-transparent arrangements from donors and the lack of control mechanisms that enabled abuse from officials who siphoned off large amounts while carrying out reforms only superficially (author's interviews with Sergey Masaulov, Asel Saldarbayeva, and anonymous presidential office department head). At the same time, part of foreign assistance went to the burgeoning civil society and helped its development (author's interviews with Bermet Tursunkulova, Alexander Pugachev).

5.3.4.2 *Causal mechanisms/Policies*

With adverse economic conditions, tax collection remained relatively low throughout 1993-1996 despite improvement on the previous period, resulting in relatively large budget deficits. While in 1991 the ratio of total revenues to GDP was 35.8% and in 1992 it was 16.5%, in 1994 the government was able to increase the ratio to 24.3%. In 1995, the revenues again fell to 20.6% of GDP. To increase revenue, the government introduced a 5% retail sales tax in 1994 and reduced VAT to 20%. VAT collections proved useful accounting for increasing share of total revenues (Economist Intelligence Unit 1996: 26). However, taxes on goods, services, income, profits, and capital gains increased slightly from 13% of GDP in 1993 to 14% in 1995 but then dropped to 12% in 1996 (World Bank 2009; Alam and Sundberg 2002: 8). These were only slightly larger than in Azerbaijan, except in 1996, while being almost twice larger than in Kazakhstan (World Bank 2009). In general, from mid-1990s customs generated on average more revenues than domestic taxes (interview with Adylbek Kasymaliyev, Nookat Idrisov).

The main reason for a relatively poor tax collection was the treatment of taxation as a political tool and source of revenues for the government employees rather than a tool of economic regulation and source of state revenue. First, tax exemptions were high; their

estimated cost to the budget was the equivalent of 5-7 percent of GDP (Alam and Sundberg 2002: 20). Agriculture was mostly exempt from paying taxes, partly for objective reasons (author's interview with Zarylbek Kudabayev). Second, key state-owned industrial enterprises received various privileges and their tax arrears were tolerated. In 1994, tax arrears accounted for 4.5% of total revenue (Economist Intelligence Unit 1996: 26). Third, the taxation system was, in the words of one observer, an 'element of bludgeon' (*element dubinki*) to punish opponents (author's interview with Sergey Masaulov).

State proceeds from privatization also remained insignificant. Cumulative privatisation revenues rose from 0.3% of GDP in 1993 to only 1.4% of GDP in 1996 (EBRD 2008). Due to asset stripping⁵⁴ and subsequent lack of enterprise restructuring, privatization of large industrial enterprises entailed neither large revenues accruing to the state, nor increase in efficiency (author's interviews with Nookat Idrisov, Nurlan Djoldoshev). The country also started to lose comparative advantage in agricultural products largely due to chaotic implementation of privatization: people privatized parts of the same equipment, irrigation systems were damaged, and new owners of privatized lands and farms decided to concentrate on producing different products (author's interviews with Zarylbek Kudabayev, Jumakadyr Akeneyev, and Kuban Omuraliyev). Nonetheless, despite not being a remarkable indicator given the lack of reforms and decline in public sector output in the region, privatization resulted in highest private sector share in GDP in Central Asia – increasing from 25% in 1993 to 50% in 1996 (EBRD 2008).

However, official sources were reportedly not the only sources of revenue for the ruling elite. In fact, according to some observers, the official budget figures represented a smaller fraction of the real stock of fiscal resources available to the ruling elite (author's interviews with Madat Tiulegenov, Sergey Masaulov, and Shairbek Jurayev). Resources accrued from quasi-fiscal collections of various government agencies, contrived rents of regulatory institutions, and allegedly also from illegal deals involving natural resources, such as gold and gasoline (BBC 1993, author's interviews with Jumakadyr Akeneyev, Madat Tiulegenov, and an anonymous member of parliament). Pervasive double accounting in state organizations concealed such practices (author's interview with Imil Akkoziyev). Some 'shadow economy' enterprises, such as emerging light textile industry, managed to stay outside formal budget and did not pay taxes, although the relationship between these enterprises and informal fiscal system is unclear (author's interview with Zarylbek Kudabayev).

⁵⁴ High-tech equipment was sold mainly abroad, particularly to China and Iran.

General government final consumption expenditure remained relatively high – it was down from 20% of GDP in 1993 to just 18.5% in 1996 (World Bank 2009). A measure of ‘costs-to-benefits’ ratio for citizens – the total amount of taxes on income, profits, capital gains, goods, and services as a fraction of government spending – shows that there was no difference between Kyrgyzstan and Azerbaijan and little difference between Kyrgyzstan and Kazakhstan in terms of spending, with the latter spending slightly more than it collected in taxes from the population (author’s calculations using data from World Bank 2009). The largest cuts during 1994-1995 were in capital investment, transport, agriculture, energy, housing, and social security (Economist Intelligence Unit 1996: 26). However, wary of social unrest, Akayev did not significantly cut social spending and in 1996 started to increase it (Kyrgyz Radio 1996, author’s interview with Sergey Masaulov). The timing of social spending injections was also strategic; for example, in early 1996 Akayev increased pensions just one month before the referendum on extending presidential powers (Kyrgyz Radio 1996).

Moreover, the state maintained considerable subsidies, particularly to the large electricity-production sector (author’s interviews with Azamat Dikambayev, Zarylbek Kudabayev, and Sergey Masaulov). This sector engaged in extensive quasi-fiscal activities, particularly underpricing. The energy purchased by companies close to authorities was partially sold abroad at world prices, generating large rents (author’s interview with Nurlan Djoldoshev). As the government made its priority to keep large industries afloat at all cost, in mid-1994 it created Enterprise Reform and Resolution Agency (ERRA), which took under its arms the country’s 29 largest enterprises, thus postponing politically and socially risky decisions on their closure (Economist Intelligence Unit 1996: 13, author’s interview with Zarylbek Kudabayev).

Having secured his position by helping form a more docile parliament and increasing his powers through the referendum, Akayev moved on to reverse political and economic decentralization achieved during previous years. In March 1996, he issued a decree that enhanced the powers of local governors who were accountable to the presidential office. These powers included suspending decisions of local self-governance bodies, enterprises, and local branches of ministries that conflicted with decisions of central authorities (ITAR-TASS 1996, author’s interview with Zarylbek Kudabayev). He also undertook cuts in public sector employment: whereas it accounted for 31.5% of total employment in 1995, it was reduced to 27.5% in 1996 and to 25.8% in 1997 (ILO 2010). However, neither centralization,

nor public sector cuts proved fully sustainable in the medium run and the government made relaxing adjustments, which may not be reflected in official figures (author's interviews with Jumakadyr Akeneyev, Imil Akkoziyev, and Nurlan Djoldoshev). Nonetheless, the presidential *apparat* became the key political decision-making and coordinating body (author's interview with Imil Akkoziyev and Nurlan Djoldoshev).

By 1997, Akayev's public appointments revealed three patterns, related to one another by the president's apparent desire to increase public officials' loyalty to him. First, while previously Akayev attracted technocratic elites as a counterbalance to his opponents among Soviet-era *nomenklatura* and means to attract foreign aid through reforms, after securing his position and succeeding in attracting major funding from outside, his reliance on technocrats decreased (author's interview with Zarylbek Kudabayev, Imil Akkoziyev).

Second, the number of ethnic Russians and other Slavs in high public offices decreased. This reflected the Slavic population's exodus due to deteriorating economic conditions as well as informal 'nativization' policies. This could also reflect Kyrgyzstan's weakened dependence on Russia economically because once Western aid substituted grants from Moscow, Kyrgyzstan was able to diversify its trading partners (Razgulyayev 1994, author's interview with Sergey Masaulov; ITAR-TASS 1995). In addition, Akayev was now less dependent on the support of ethnic Slavic population than in his early years in office. According to official sources, 150,000 Russians and 50,000 other Slavs had left Kyrgyzstan by 1995, reducing the country's Slavic population to 900,000 people, including 750,000 ethnic Russians (ITAR-TASS 1994). Nonetheless, the ruling elite was cautious not to alienate the remaining Russian and other Slavic population, for political considerations and the purposes of retaining highly-skilled labour. The authorities tried to retain some ethnic balance in public appointments and made Russian the second official language in areas and workplaces where Slavs were in a majority, making Kyrgyzstan the first FSU country to grant great rights to its Russian minority (United Press International 1994, author's interview with Kuban Omuraliyev; ITAR-TASS 1995).

Finally, while initially the ruling elite ensured some degree of balance among politicians from northern and southern regions, from mid-1990s on the ruling elite started to promote more cadres from northern regions to increase loyalty and cohesion (author's interviews with Kuban Omuraliyev, Madat Tiulegenov, and Sergey Masaulov). However, the extent of regionalism or clan-related appointments was far from making regionalism and clans defining features of the political system and was never as high as during the tenure of

Akayev's successor after Tulip Revolution in 2005 (author's interviews with Bermet Tursunkulova, Madat Tiulegenov, Nookat Idrisov, Kuban Omuraliyev). The alleged system of selling government positions also started during this period (author's interview with Madat Tiulegenov), apparently both to raise funds for the ruling elite and to tie the continuation utility of the appointee to the employer's tenure in office (see Robinson and Verdier 2003). Having consolidated his position, Akayev undertook a major anti-corruption drive in which many government officials were sacked or reprimanded.

While in previous years state coercion was low, by mid-1990s it increased. From 1994, the government banned several anti-government newspapers using criminal libel proceedings, including popular *Politika* and *Res Publika* (United Press International 1994; Economist Intelligence Unit 1996). Although no political or extrajudicial killings or disappearances were recorded, imprisonment on political grounds and torture were observed (Department of State Dispatch 1996; Cingranelli and Richards 2008). The journalists from *Res Publika* became the country's first political prisoners since the dissolution of the Soviet Union (Economist Intelligence Unit 1996: 8).

5.3.4.3 *Regime outcomes*

By 1996, Akayev was able to significantly consolidate his power. The presidential powers were considerably extended, while the parliament's role was proportionally reduced. Opposition parties and leaders were marginalized, although not to the same extent as in Turkmenistan, Azerbaijan, and Kazakhstan. Although containing many elements of autocracy, the resulting political regime was hybrid. Slight to moderate limitations on president's power were retained and political participation remained factional.

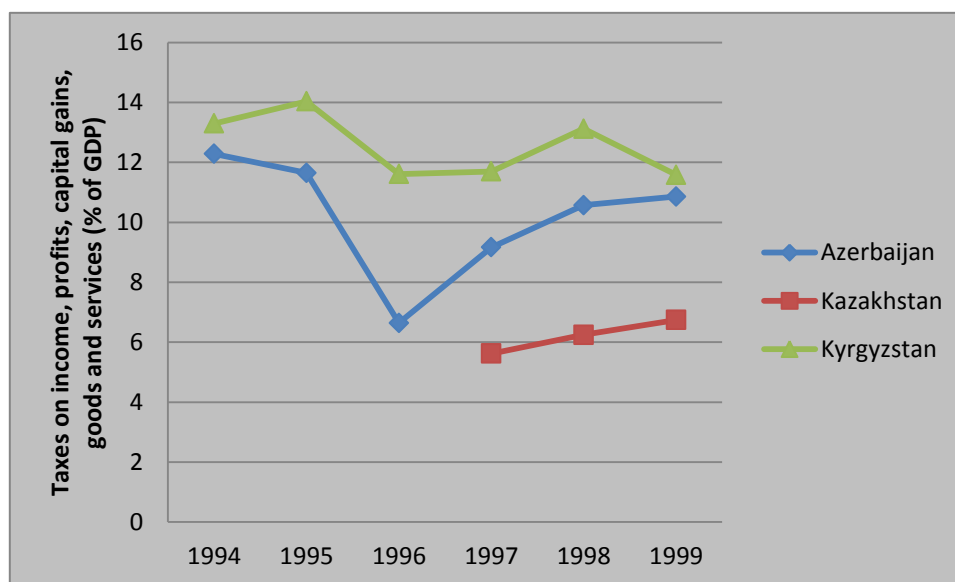
5.4 **Similarities and differences in causal mechanisms**

Table 5-2 provides a summary of similarities and differences in outcomes – causal mechanisms and regime outcomes. It shows three patterns. First, the resource-poor Kyrgyzstan regime outcome provides preliminary corroboration to the resource curse thesis. Second, although the regime outcomes roughly confirm the prediction of the *rentier state* theory and resource curse hypothesis, the causal mechanisms did not follow the predicted pattern. Finally, despite roughly similar amount of oil revenues, the regime outcomes in Turkmenistan, Kazakhstan, and Azerbaijan were different. The following subsections examine the differences in each causal mechanism.

5.4.1 Revenues

Although tax collection in all four countries remained relatively low, their revenue-side fiscal policies exhibited several important differences. First, while the rates of taxes on goods, services, income, profits and capital gains remained relatively unchanged in Azerbaijan and Kyrgyzstan, it decreased in Turkmenistan and Kazakhstan. Second, while collection in Turkmenistan decreased relative to previous years, in Kazakhstan and Azerbaijan it showed small improvement. Figure 5-1 suggests that these taxes were larger in Kyrgyzstan in terms of GDP than in the other countries. However, an alternative measure – taxes as a fraction of government spending – does not suggest a significant difference between resource-rich Azerbaijan and Kazakhstan and resource-poor Kyrgyzstan (Figure 5-2).

Figure 5-1. Taxes in % of GDP, 1994-1999



Source: (World Bank 2009)

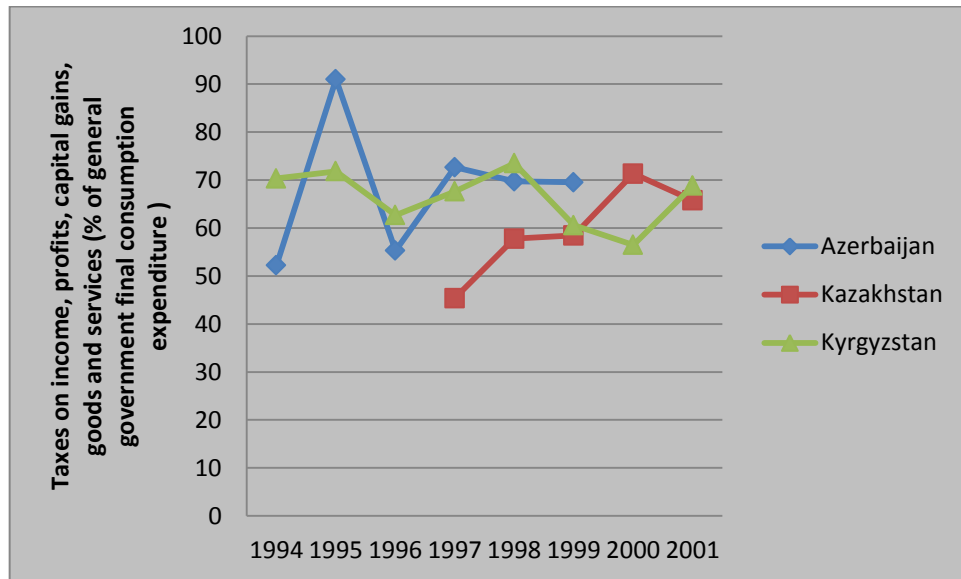
Third, the four countries adopted various degrees of changes in their taxation systems: while Turkmenistan and Azerbaijan made minor changes, Kyrgyzstan and particularly Kazakhstan modernized their taxation systems further, largely to attract further FDI. Fourth, whereas Kazakhstan pursued aggressive privatization and accrued large revenues from the process, the degree of privatization in Turkmenistan, Azerbaijan and Kyrgyzstan remained low (Figure 5-3). Finally, although all four countries had extensive tax bribery, its degree in Azerbaijan was about twice higher than in Kazakhstan and Kyrgyzstan (EBRD 1999; Tanzi and Tsibouris 2000).

Table 5-2. Outcome Variables, Regime Consolidation Stage

	<i>Lowered taxes?</i>	<i>Increased spending?</i>	<i>Increased public employment?</i>	<i>Increased coercion?</i>	<i>Regime outcome</i>
Turkmenistan	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: mixed	predicted: no; actual: yes	unlimited autocracy
Kazakhstan	predicted: yes; actual: no	predicted: yes; actual: no	predicted: yes; actual: no	predicted: yes; actual: yes	mild autocracy
Azerbaijan	predicted: yes; actual: no	predicted: yes; actual: mixed	predicted: yes; actual: mixed	predicted: yes; actual: yes	moderate autocracy
Kyrgyzstan	predicted: no; actual: no	predicted: no; actual: mixed	predicted: no; actual: no	predicted: no; actual: yes	hybrid

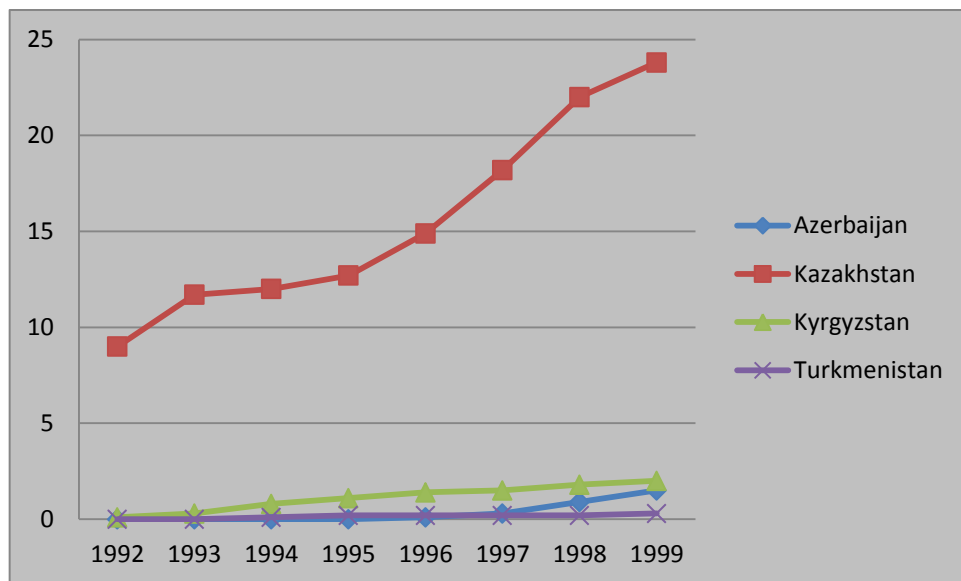
Note: ‘Predicted’ stands for ‘predicted by the *rentier state* theory and resource curse hypothesis.’

Figure 5-2. Taxes as a Fraction of Total Government Spending



Source: Author's calculations, (World Bank 2009)

Figure 5-3. Privatisation Revenues (cumulative, in per cent of GDP)



Source: EBRD 2008.

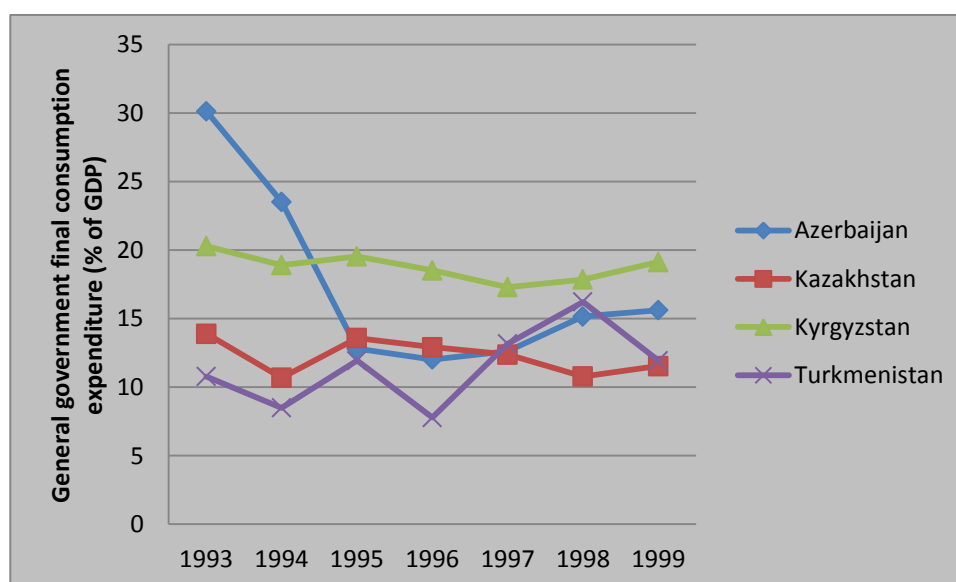
5.4.2 Spending

Four similarities characterized the government expenditure policies across the four countries. First, all four countries maintained similarly high levels of social spending, although Azerbaijan increased its spending while Kazakhstan decreased it in comparison with the previous period. Second, tax expenditures remained roughly at the same medium levels. Third, all four governments maintained considerable quasi-fiscal activities by state enterprises. Kazakhstan also induced multinational companies to undertake large quasi-fiscal projects in various localities in return to tax privileges.

Finally, public sector wages remained low across the four countries, inducing corruption among public sector employees.

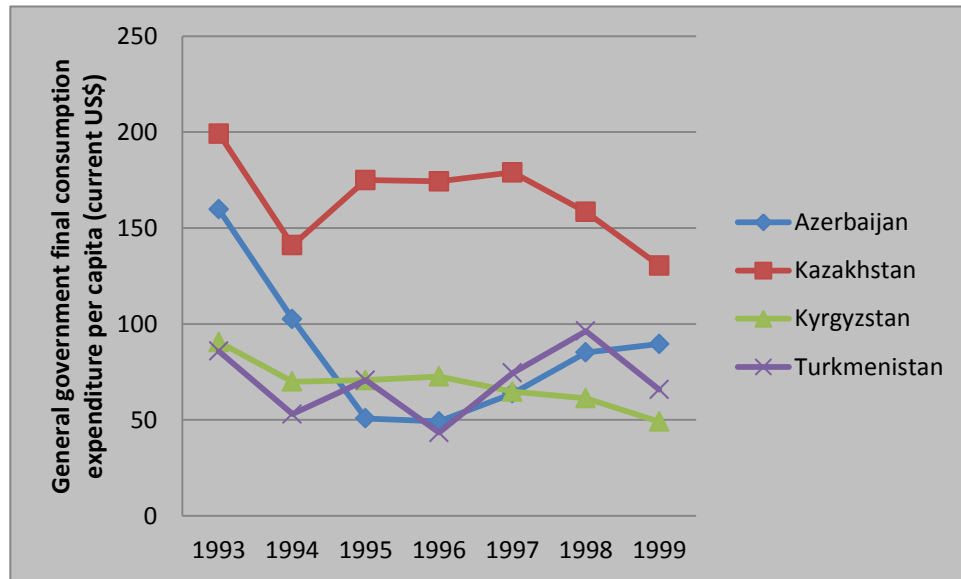
At the same time, the four governments had several differences in their expenditure policies. First, the total government expenditure varied across the four countries. In GDP terms, Kyrgyzstan maintained a significantly larger public spending than each of the three oil-rich countries (Figure 5-4). Using an alternative measure – public spending per capita – shows that Turkmenistan, Azerbaijan, and Kyrgyzstan's public spending was roughly similar (Figure 5-5). These findings challenge the resource-curse literature's hypothesis on the positive association between natural resource abundance and government spending.

Figure 5-4. General Government Final Consumption Expenditure (% of GDP)



Second, although the extent of cuts in official capital investment was similar across the four countries, Kazakhstan's government supported massive infrastructure projects to relocate the country's capital from Almaty to Astana. Third, the four countries differed in the amount of transfers and subsidies to households: while Turkmenistan maintained high levels of such transfers and subsidies and Azerbaijan and Kyrgyzstan maintained medium-to-high levels, Kazakhstan's transfers and subsidies declined to medium. Similarly, and fourth, Kazakhstan cut subsidies to state enterprises, while Turkmenistan maintained its high subsidies and Azerbaijan and Kyrgyzstan their medium-to-high subsidies to the public sector enterprises. Finally, a large number of refugees and IDPs in Azerbaijan should be taken into account as well because their maintenance was subsidized by the government spending.

Figure 5-5. Government Spending Per Capita, 1993-1999



5.4.3 Public sector employment and appointments

Downsizing in public sector employment varied across the four countries: the extent of cuts was minimal in Turkmenistan, moderate in Azerbaijan and significant in both Kazakhstan and Kyrgyzstan (Figure 5-6). Accordingly, private sector share in GDP became high in Kazakhstan and Kyrgyzstan and medium in Azerbaijan, while remaining small in Turkmenistan (Figure 5-7). The fact that Turkmenistan and Azerbaijan lagged behind Kyrgyzstan in cutting their public sector employment lends credence to the resource-curse literature hypothesis that resource-rich countries will maintain larger government employment. However, the fact that public sector employment in resource-rich Kazakhstan was similar to that in resource-poor Kyrgyzstan and smaller than in resource-rich Azerbaijan despite similar size of oil revenues challenges that hypothesis, inviting a closer look and possibly its modification.

There were similarities and differences in patterns of public appointments and reshuffles. First, after having secured their rule, the ruling elites in all four countries began to narrow the size of their coalition. This narrowing followed the minimum-winning coalition logic (Riker 1962; Jowitt 1975), where the lieutenants who were previously instrumental in either bringing the leader to power or helping him to establish his rule otherwise, but who also had high political ambitions and substantial claims to political and economic resources were purged through the incumbent leaders' manoeuvres that capitalized on the failure of collective action among these cadres. The ensuing personnel reshuffles, however, were different in scope – with the leaders in Turkmenistan and Azerbaijan purging more and harsher than in Kazakhstan and

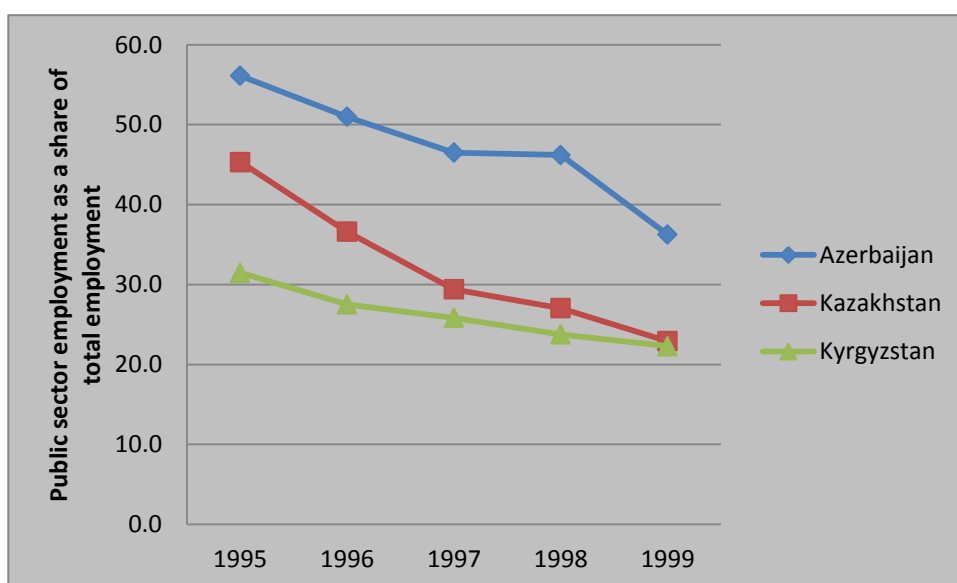
Kyrgyzstan, probably reflecting lack of constraints on the leader, which indicates the endogenous nature of the relationship between political regime and reshuffles.⁵⁵

Second, the degree of regionalism in public office appointments also differed, with Azerbaijan's ruling elite displaying higher degree of regionalism than its counterparts in the other four countries.

Third, the degree of ethnic balance in public appointments differed across the cases, with Kazakhstan and Kyrgyzstan's elites trying to ensure some ethnic balance in relation to Russian minorities, although to a much smaller extent than in previous years.

Finally, the degree of incorporation of non-communist technocrats into government positions also differed across the cases. While Kazakhstan's government attracted younger-generation technocrats and new business leaders to government posts, the leadership in Turkmenistan had very few technocrats, with Azerbaijan being somewhere in the middle. In Kyrgyzstan, the number of technocrats decreased relative to previous years, while opportunistic business leaders gained more ground in the parliament.

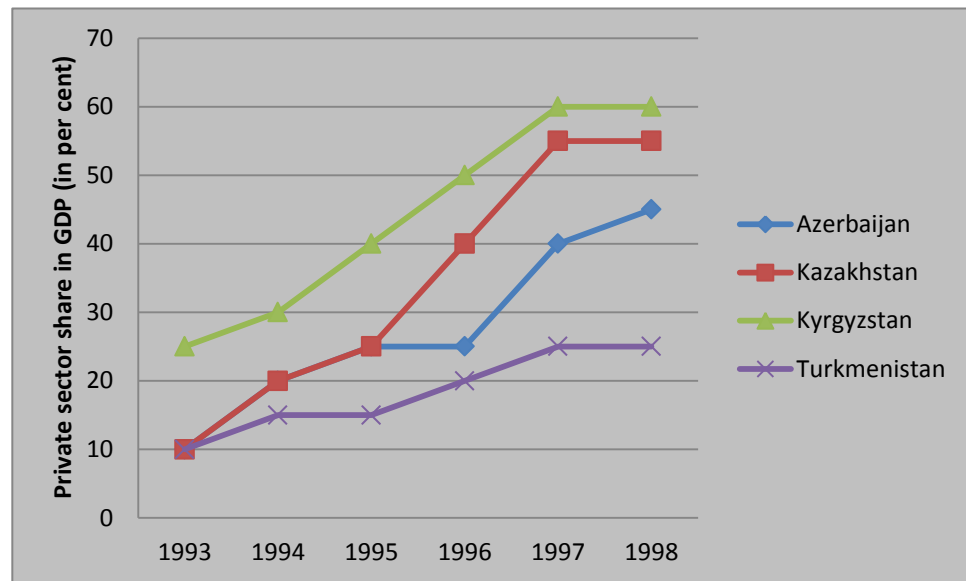
Figure 5-6. Public Sector Employment, 1995-1999



Source: (ILO 2010)

⁵⁵ Also, rotation of cadres in Azerbaijan and Kyrgyzstan was slower than in Kazakhstan and Turkmenistan.

Figure 5-7. Private Sector Share in GDP, 1993-1998

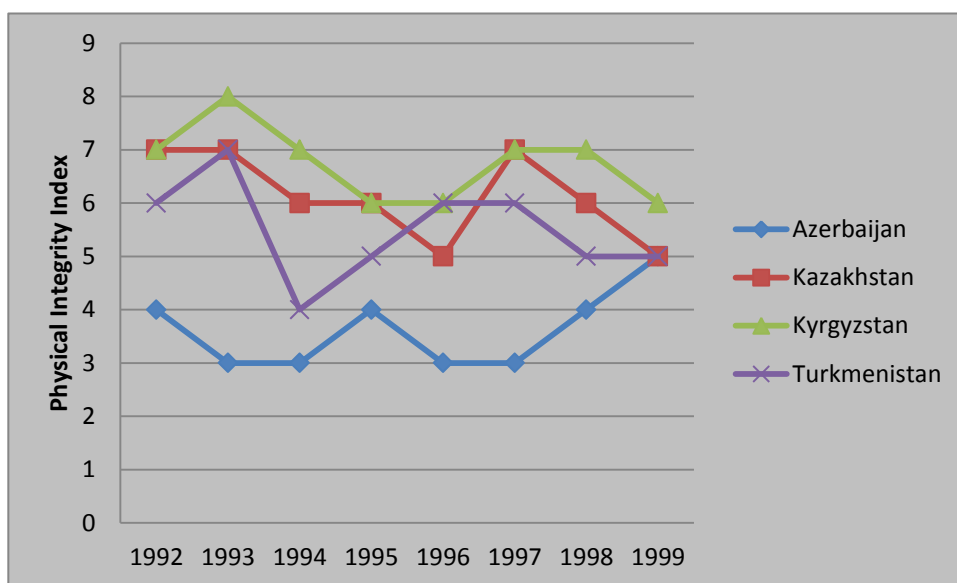


Source: (EBRD 2008)

5.4.4 Coercion

Coercion was characterized by four patterns. First, spending on coercion remained relatively higher in Turkmenistan than in Azerbaijan, Kazakhstan, and Kyrgyzstan. However, official figures may poorly reflect the real situation. Second, actual repression remained highest in Azerbaijan and lowest in Kyrgyzstan (Figure 5-8). This is a mixed finding. On the one hand, it shows that the leadership in resource-rich Turkmenistan, Azerbaijan, and Kazakhstan were on average more repressive than the ruling elite in resource-poor Kyrgyzstan. This confirms the resource curse hypothesis on the role of coercion. On the other hand, it shows that coercion is not be the function of oil abundance alone since the ruling elite in the relatively less wealthy Azerbaijan was more repressive than its counterpart in the better-off Turkmenistan. Third, although the governments in all four countries tightened political participation, the competitiveness of political participation varied across the four countries with Turkmenistan's authorities suppressing political participation of any alternative group while Kyrgyzstan remained the most liberal. Finally, key repression target categories varied from country to country.

Figure 5-8. Repression, 1992-1999



Source: Cingranelli and Richards 2008

5.5 Conclusion: sources of differences

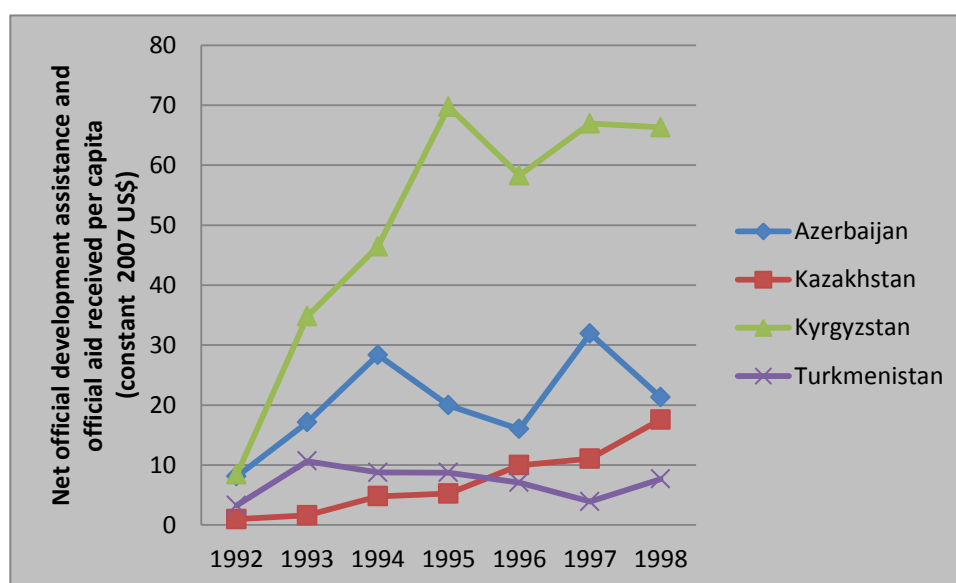
5.5.1 Natural resource wealth or non-tax revenues?

Oil and gas revenues were an important factor in political regime consolidation in Turkmenistan, Kazakhstan, and Azerbaijan. As these revenues flowed directly to the largely opaque government coffers, they increased fiscal resources available to the ruling elites, contributing to their bargaining power domestically and internationally, helping soothe redistributive pressures, and enhancing their coercive capacity. In terms of public spending, the governments in the three countries were able to maintain medium-to-high level of social spending, subsidies to state enterprises, tax expenditures, and quasi-fiscal activities by state and private enterprises. This contributed to maintaining weak constraints on the executive and contributed to low political participation. In terms of public employment, in Turkmenistan and Azerbaijan the oil and gas revenues allowed the governments to maintain large public employment. In all three oil-rich countries, relatively many and lucrative government jobs increased rent-seeking and competition for public office, thereby increasing the ruling elite's bargaining power. Finally, oil and gas revenues contributed to maintaining robust coercive apparatus that were likely to discourage any dissent.

However, it is easy to overstate the role of oil revenues at the detriment of a more nuanced explanation. For one thing, the size of revenues from oil and gas production does not provide sufficient explanation of the similarities and differences in causal mechanisms and regime outcomes across the four cases because the state coffers in all four countries also received varying amounts of other non-tax revenues, whose

effect on taxation, spending, public appointments, and coercion can hardly be empirically separated from that of oil and gas rents. Whereas Azerbaijan and Kyrgyzstan's rents from other natural resources remained low, Turkmenistan's cotton rents remained roughly unchanged and Kazakhstan's rents from non-oil minerals increased over time. These confirm the findings of the previous chapter that other primary commodities, such as cotton or some minerals, might have effects similar to that of oil (Ross 2001, 2001). They also suggest that resource diversity, i.e. the reverse of dependence on single primary commodity, might not necessarily lead to less autocratic regime as implied by some scholars of resource curse (Dunning 2008). Similarly, Azerbaijan and especially Kyrgyzstan also received relatively large foreign aid. Kyrgyzstan's foreign aid was on average three times larger in per capita terms than that of Azerbaijan and more than five times those of Kazakhstan and Turkmenistan (Figure 5-9). This lends some credence to the view that foreign aid as well as oil can have a negative effect on political regime (Morrison 2007).

Figure 5-9. Foreign Aid Per Capita, 1992-1998



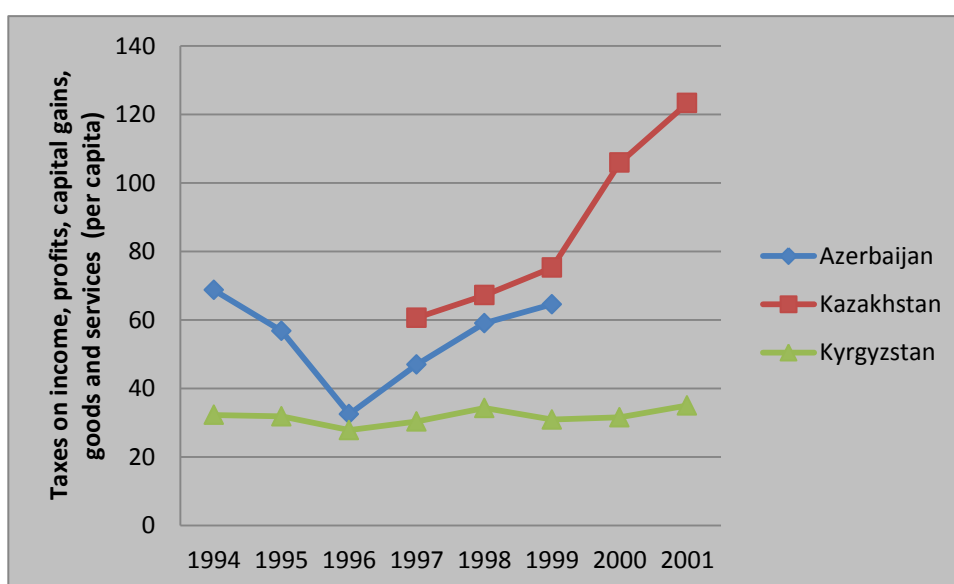
Source: World Development Indicators 2009.

Patterns of taxation in the four cases during the considered period illustrate the limitations of relying only on the measure of oil and gas revenues as an independent variable. They also challenge the prediction of the resource curse literature, according to which resource-rich countries tax their populations less than resource-poor countries. First, while taxes on goods, services, income, profits and capital gains remained highest in percent of GDP in resource-poor Kyrgyzstan, they were closely followed by resource-rich Azerbaijan, except in one year - 1996 (Figure 5-1). Second, despite similarity in the

amount of oil rents per capita between Kazakhstan and Azerbaijan, collection of these taxes in Azerbaijan was twice larger than in Kazakhstan in percent of GDP. Third, an alternative measure – taxes on goods, services, income, profits and capital gains *per capita*, which can arguably be a less biased measure than the one with GDP in the denominator – reverses the picture (Figure 5-10): Kyrgyzstan had the lowest per capita tax collections and Kazakhstan, the highest. One way to interpret this is to say that higher resource rents can have spillover effects, therefore inflating the amounts of collected taxes; if so, an adequate measure of taxes should be “cleaned” of these spillover effects. Another view can complement this: other non-tax revenues can also have an effect on taxation. In addition, this highlights the susceptibility of the tests of resource-curse hypotheses to different operationalizations of key variables.

Nor did the patterns of changes in government spending uniformly follow the predictions of the *rentier-state* theory and resource-curse literature. For example, at the time of increasing oil revenues, the government in Kazakhstan reduced its total spending. Although it maintained the same level of social spending, it simultaneously cut transfers and subsidies to households, subsidies to state enterprises, and tax expenditures. Similarly, the government in Kazakhstan also undertook considerable downsizing in the public sector employment. This points out the role other structural and institutional factors have played along with oil.

Figure 5-10. Taxes Per Capita, 1994-2001



5.5.2 Geography of oil production

As the governments in Kazakhstan, Azerbaijan and Turkmenistan engaged in negotiations with multinational oil companies and Kazakhstan also undertook privatization of its oil assets, the factor of different geographies of oil and gas production came to the forefront. In Azerbaijan, the political capital Baku is also the center of oil production – all major oil fields are in close proximity to Baku and under full control of the elite in power. In Turkmenistan, the gas basin covers most of the territory of the country, the average distance from the capital Ashkhabad to separate production centers is 300 kilometers and Ashkhabad is located conveniently in the middle (see Map 1 in Appendix). Such relative proximity to production centers and historical control of the oil and gas sector by the country's elite ensured lack of any challenges to Niyazov's control of these regions.

In Kazakhstan, on the other hand, oil-producing centers are scattered in the western part of the country, about two thousands kilometers away from both former capital Almaty and new capital Astana (see Map 1 in Appendix). This entailed a different dynamic in mid-1990s as the ruling elite had to make some concessions to the so-called oil barons and regional elites from western regions who previously had a near monopoly over the oil and gas fields and were not content to give it away (Jones Luong 1999; Hoffman 2000). Both elites and populations in these regions expressed discontent at fiscal equalization mechanisms and oil barons were able to delay the sectoral privatization process (Najman et al. 2005; Jones Luong 1999). As the government had to diffuse opposition to implementation of central government's contracts with multinational oil companies and to keep oil and gas production in full swing, it initially conceded by allowing some, albeit small, degree of fiscal autonomy, making relatively larger spending allocations for these regions, and encouraging multinational oil companies to engage in multiple quasi-fiscal activities in these regions (author's interview with Oraz Jandosov)(Najman et al. 2005). It responded by force as well by dismantling Kazakhstanmunaigaz, the state holding company in charge of the country's oil and gas industry in 1997. However, as privatization of the energy sector did not accrue as much revenue as the government expected, in late 1997 Nazarbayev appointed one of the oil barons Nurlan Balgimbayev as Prime Minister with the task of re-considering pending contracts with multinationals and slowing down privatization (Jones Luong 1999).

In sum, whereas the leaders in Azerbaijan and Turkmenistan did not encounter any opposition from energy sector elites or regional leaders and populations in energy-producing regions, existence of such challenge in Kazakhstan constrained the ruling

elite's centralization and regime consolidation efforts and entailed more liberal regulation of political participation than in Turkmenistan and Azerbaijan.

5.5.3 Spread of Alternative Elites

Preceding political turbulence, regime transition and elite change continued to have an effect on political regimes in Azerbaijan and Kyrgyzstan. In Kyrgyzstan, despite Akayev regime consolidating efforts were hampered by continuing presence of a sizeable opposition, particularly from former Soviet-era *nomenklatura*. Previous liberalization also created relatively burgeoning civil society and autonomous mass media.

Azerbaijan's previous involvement in war, several elite changes and brief experimentation with democracy had a lasting effect on political regime consolidation, although the war legacy's effect was more ambiguous. On the one hand, although Aliyev was able to subdue most of the influential political groups that had emerged in early 1990s, they still formed opposition parties with numerous civil society satellites and media outlets and acted as constraints, however weak, on Aliyev's power. On the one hand, the ruling elite learned to use the frozen conflict with Armenia as an ideological pretext for centralizing and solidifying its power. In addition, the large IDP population of over 800,000 people – making Azerbaijan the country with the largest number of IDPs per capita – was practically voiceless, since it was dependent on the government for living, and was manipulated by the ruling elite, particularly during elections. Finally, the legacy of instability made privatization and financial sector reform unattractive to the ruling elite.

5.5.4 Russian Minorities and Dependence on Russia

Despite the departure of many Russians and other ethnic Slavs from Kazakhstan and Kyrgyzstan, the remaining communities still formed relatively large minorities in both countries. In Kazakhstan, some Russians who left in early 1990s, returned after the country's economic decline was reversed. In 1999, Russians made up 30% of Kazakhstan's population, down from 37.4% in 1989 (Kazakhstan State Statistical Agency 2000). In Kyrgyzstan, Russians made up 18% of the population in mid-1990s, down from 21.5 in 1989 (Economist Intelligence Unit 1996). While authorities in both countries pursued subtle and sometimes overt *nativization* policy, the presence of such large groups affiliated with the powerful kin state continued to constrain the ruling elites' domestic exercise of power. Both countries depended on Russia politically, economically, and militarily. Russian authorities, in turn, were not enthusiastic in hosting large groups of Russian immigrants given the country's limited economic

resources, despite the official rhetoric of supporting compatriots abroad used by various elites in their domestic political struggles (King and Melvin 1999). Previous political and economic liberalization that emboldened pressures from these communities, although tackled by the states' growing capacity, nonetheless remained an important factor that affected the ruling elites' public appointment patterns and economic liberalization programmes. In the case of Kazakhstan, it also entailed subsidies to the Russian-dominated industrial sector (BBC 1994). The sizeable Russian minority may have been one of the contributing factors to rapid privatization as well, since the ruling elite strived to transfer many industrial resources from under control of Russian managers and workers to ethnic Kazakh groups loyal to the ruling elite (author's interview with Rustam Kadyrzhanov). The ruling elites in Turkmenistan and Azerbaijan did not have such issues.

The extent of dependence on Russia also remained a factor that had different effects across the four countries. With the inflow of oil revenues, Azerbaijan and Kazakhstan as well as Turkmenistan grew less dependent on Russia economically. Politically, however, Kazakhstan remained more dependent on Russia, given its ethnic make-up, extensive border with Russia, and perception of demographic and political threat from China that called for a counterbalancing through relying on Russia's support. Kyrgyzstan was similarly dependent on Russia, although to a lesser extent than in the immediate aftermath of the Soviet Union's collapse.

The cases of Turkmenistan and Azerbaijan were different. While all CIS countries owed Russia \$7 billion in debt, Azerbaijan's and Turkmenistan's debt was minimal. In the case of Turkmenistan, the dependence was mutual – Turkmenistan depended on Russian pipeline network, while Russia depended on Turkmenistan's gas to meet its domestic and exports needs. Turkmenistan's ruling elite also carefully avoided CIS structures. In the case of Azerbaijan, although its relations with Russia remained strained, they were much less tense than during Aliyev's predecessor Elchibey. Russia supported Armenia militarily and challenged Azerbaijan's position on the legal status of Caspian Sea. In addition, Russian authorities also accused Azerbaijan of providing safe haven for Chechen fighters. Despite these, Aliyev was able to buy off Russia by giving Russian oil companies bigger stakes in oil consortia, making Azerbaijan a CIS member and providing Russia with control over a strategically important radar station in Gabala in the north of the country. In 1996, Russia supported Azerbaijan's stance on Mountainous Garabagh during OSCE summit in Lisbon. Russian authorities also extradited Aliyev opponents who fled persecution (Musabekov 2000).

6 Ordinary and Extraordinary Times

6.1 Introduction

Once the ruling elites consolidated their power, the political regimes in Azerbaijan, Kazakhstan, Kyrgyzstan, and Turkmenistan entered their “ordinary” times. In the oil-rich countries, the regime stability was boosted by favourable economic climate that was largely due to considerable FDI in their energy sectors, increase in production of oil and gas, and rise of oil and gas prices. In conjunction with the effects of previous policies, this rise in oil revenues also helped the ruling elites in these countries further weaken potential sources of challenge, such as regional elites and ethnic minorities. In Kyrgyzstan, significant inflows of foreign aid provided the means of sustaining regime stability and underpinned its autocratization. After a period of relatively tranquil routine, however, each ruling elite faced a challenge that emanated from either a looming succession crisis or alternative elites, or both.

The following section provides a brief theoretical framework to understand the similarities and differences in elite strategies across the four countries during their ‘ordinary’ and ‘extraordinary’ times. The third section details the four cases. Next, I analyze the differences in causal mechanisms linking oil wealth to regime outcomes in comparative perspective. I conclude with an examination of the sources of differences.

6.2 Theoretical framework

This chapter argues that oil wealth was an important factor behind regime stability and then relatively smooth successions and autocratic regime survival in oil-rich Azerbaijan, Kazakhstan, and Turkmenistan and that the lack of such resources contributed to the downfall of the autocratic regime in Kyrgyzstan.

Table 6-1. Explanatory Variables, Ordinary and Extraordinary Times

		Oil revenues	Spread of alternative elites	External legitimation*
Turkmenistan	1995-2007	high	low	medium
Kazakhstan	2000-2007	high	medium	medium
Azerbaijan	1998-2007	high	medium	medium
Kyrgyzstan	1997-2005	none	high	high, then low

* External legitimation can be both exogenous and endogenous - i.e. while it can be due to a country's possession of oil and gas resources, it can also stem from other political or economic factors

While foreign aid helped the ruling elite in Kyrgyzstan to become autonomous from its society, it was not enough to make the ruling elite too powerful. Given the

consequences of the previous economic decline and its inability to cope with them on its own and provide for the society, the Kyrgyz state had to allow a relatively free economic environment. This factor and foreign aid contributed to sustaining relatively liberal policies that allowed the emergence of large opposition groups and semi-autonomous and autonomous business elites. During the 2005 parliamentary elections, the challenge posed by these groups actualized to an extent that forced Akayev to flee the country and his autocratic regime to break down.

However, as in the previous periods, the size of oil and gas rents cannot alone account for the differences in causal mechanisms and regime outcomes – its effect is likely to be refracted by other structural and institutional factors. While the path-dependent policies of the ruling elites in Kazakhstan and Azerbaijan resulted in the weakening of other constraints – such as the Russian minority and regional elite resistance in the case of Kazakhstan – other developments, each different in different countries, allowed the emergence, however temporarily, of alternative elites, whose presence acted as a constraint on the ruling elites' exercise of autocratic power. I hypothesize that the costs of patronage and costs of coercion rise with the spread of alternative elites. The larger are these costs relative to government revenues and its political-administrative resources, the more is the ruling elite constrained and the milder will the regime outcome be.

The 'ordinary times' game is different from the previous pre-oil coalition formation and consolidation games in three related ways. First, unlike in the previous periods, the leader (the ruling elite) does not face a continuous explicit challenge from disenfranchised citizens, selectorate or winning coalition members. The regime lives in its 'equilibrium' stable state owing largely to oil revenues that accrue directly to the leader and entail incumbency advantage. The leader's revenue-generation, spending, public employment, and coercion policies reflect its security in office and regime's stability. The leader is even more powerful than during consolidation as the resources at his disposal allow him to use them for discretionary patronage and coercion as well as public goods. The incumbent's power is further enhanced as it continues to be the *rent-seizer* controlling not only resource rents but also access to and provision of various other rents (Buchanan 1980; Ross 2001), such as 'contrived rents' (Auty and De Soysa 2005).

Second, the minimum-winning coalition logic (Riker 1962; Jowitt 1975), described in chapter 3 and 5, prompts even further concentration of the winning

coalition. The resources at the leader's disposal enable it to manipulate other actors and to regularly adjust the size of his winning coalition to just about the size to stay in power, but small enough to maximize each coalition member's share of private goods associated with membership in the ruling elite. This may seem counter-intuitive in the context of oil-rich states, which can theoretically afford the leader to sustain a larger coalition; however, the empirical evidence suggests the opposite.

However, the implicit challenge to the ruling elite and possible the political regime develops over time and actualizes during critical political events, such as succession periods, either from the marginalized selectorate members or winning coalition members, or both. At this point, the leader's previous and current access to resources and the strength of alternative groups, which also reflects the previous political and economic policies, affects the regime outcome.

6.3 Case studies

6.3.1 Turkmenistan, 1995-2007

6.3.1.1 Political and economic environment

Despite an unprecedented march of protest against poor living conditions by around a thousand people in July 1995, which was crashed by the authorities, the autocratic regime in Turkmenistan remained stable (Shermatova 1995; Ochs 1997). Having consolidated his power and facing little resistance from the society and virtually eliminated elites, President Niyazov engaged in further centralization of all political and economic decision-making in his own hands and presided over an increasing cult of his personality. Turkmenistan's highly autocratic polity entered its ordinary times.

Initially, the previous mismanagement of economic policy resulted in economic decline, exacerbated by the Asian financial crisis in 1997. IMF suspended its loan agreement with the country due to its balance-of-payments crisis in 1996 (EIU 1996). External debt situation deteriorated in 1997 and 1998 as Turkmenistan had external assets amounting to \$1.3 billion in arrears owed by Ukraine, Georgia, Armenia, Azerbaijan, Iran, Kazakhstan, Uzbekistan and Russian gas company Itera, leading even to arrears in payment for expansive government construction projects (Pomfret 2001). GDP contracted both in 1996 and 1997. The government acknowledged the need for economic reform by preparing a "thousand-day economic program" in 1997, which in 1999 was incorporated into the presidential socio-economic development program (Pomfret 2001). But the program remained in rhetoric only. Starting in 1998 the

economy started to grow and increased by an average of 14.6% between 1998 and 2007 owing largely to increased gas production and favorable world prices (EBRD 2008).

Gas and oil extraction and export was not without problems. First, the pipeline network inherited from the Soviet Union led only to former Soviet republics, which themselves were experiencing economic decline in mid-1990s and accrued large debts, especially Ukraine. Many transactions were made in barter. This pipeline network also made Turkmenistan dependent on Russia for exporting its gas. This prompted the government of Turkmenistan to search for alternative routes and in 1997 it started to export gas to Iran through a small pipeline in the south. However, the amount of gas transported via this route was insignificant and realization of other pipeline building projects was problematic due to adverse international environment, such as the war in Afghanistan, and US pressure to commit to an alternative route through the Caspian and the Caucasus to Turkey (Lubin 1999; Pomfret 2001). In addition, the erratic style with which Niyazov approached oil and gas deals deterred foreign companies from large investment (EIU 1996).

Despite these problems, however, gas and oil production steadily rose from 1999 to 2007. Throughout early and mid-2000s, Turkmenistan managed to streamline its gas exports, including through Russia (Grib and Gudkov 2006). Oil and gas rents per capita rose from 477 USD in 1996 to 4359 USD in 2006 – more than twice of that in Kazakhstan and three times more than that in Azerbaijan (author's calculations based on data from World Bank 2009 and Ross 2009). As cotton export revenues steadily declined in late 1990s, dependence on gas production also rose – already in 1996, gas production accounted for almost 60% of GDP (EIU 1996; Lubin 1999).

6.3.1.2 Causal mechanisms/Policies

Perhaps due to relative increase of tax revenues over time, the government neither initiated a serious tax reform, nor pursued significant privatization. First, taxes relative to GDP increased from 9.1% in 1995 to 18.7% in 1998, mostly due to gas exports (Tanzi and Tsibouris 2000). Second, the government did not attempt to reform the tax system: progress on tax reform between 1992-1998 was very little and lowest among FSU countries (Ebrill and Havrylyshyn 1999: 10; Tanzi and Tsibouris 2000: 17). Third, unlike in Kazakhstan, Turkmenistan's government continued to abstain from privatization: the entities that were privatized were mostly small enterprises in consumer services and retail trade and the cumulative privatization revenues increased from 0.2% of GDP in 1996 to only 0.6% of GDP in 2005 (author's interview with a former government official; EBRD 2008b; Pomfret 2001). The country continued to fare very low in EBRD's

transition indicators on large-scale privatization, small-scale privatization, and enterprise restructuring (EBRD 2008).

Despite the government's increasing ability to finance these payments, a build-up of spending arrears, mostly in paying wages and pensions, had become chronic (Global Witness 2006). Over the period of late 1990s and early 2000s, the government cut down spending in healthcare and education. However, the government embarked on a statist development strategy that featured large infrastructure investments of dubious quality and import-substituting industrialization (Pomfret 2001; Sabonis-Helf 2004). Infrastructure projects consisted mainly of grandiose construction, such as an environmentally disastrous construction of a large lake in the Karakum Desert to improve agriculture (Pomfret 2001). Industrial investments in Turkmenbashi oil refinery and creation of a cotton textile industry failed to produce desired outcomes, but sapped huge government funding.

Spending on state enterprises gradually increased. An estimated 21 percent of GDP was spent on oil and gas subsidies, largely to state enterprises (Sabonis-Helf 2004). State enterprises also benefited from implicit subsidies as they were able to borrow abroad under government guarantee and the country's improved credit ratings helped this (author's interview with a former government official 2010). They also continued to benefit from widespread tax exemptions. Extrabudgetary spending remained vast and untransparent, largely from the funds controlled directly by the president and those under state enterprises and by the second half of 2000s could be as large as four times those indicated in the state budget (International Monetary Fund 1999; Pomfret 2001; EIU 2008). The practice of awarding large project contracts or other privileges to large contracts in exchange for undertaking social projects gained momentum (Pomfret 2001: 171). The confusing two-tier public finance system remained highly untransparent (International Monetary Fund 2004: 14). Finally, as some long-term observers suggest, given its tight control over the country and neighborhood with Afghanistan and Uzbekistan, the ruling elite must have also benefited from trafficking of drugs, arms, and WMDs (McKay 2004; Lebedev 2002; Volkov and Sariyev 2005; Kurtov 2003; Shikhmuradov 2006).

The government continued to provide most of the employment in the public sector and kept unemployment low. Private sector was kept small at about 10%, predominantly circumscribed to retail trade, but even in private sector the government retained a "right" to control employment (author's interview with a member of parliament; US Department of State 1999; EIU 2008). Entrepreneurship flourished in shuttle trade amounting to an estimated 10-20% of official trade in 1999-2000, but this

remained limited (Pomfret 2001). Agriculture continued to be the largest employer providing around 50% of jobs throughout 2000s (EIU 2008). Despite the nominal autonomy, farmers, as in the Soviet period, remained highly dependent on state orders and depended on state subsidies for essential inputs (Pomfret 2001). Official wages in the public sector remained low, continuing to fuel corruption.

President Niyazov's style of public appointments grew even more erratic and rotation of cadres on the national and regional level, more frequent over time, particularly after 2000 (ICG 2004). In 1996, he fired one of his last potential rivals, the governor of Mary province Kurban Orazov, on corruption charges. In 2002 alone, Niyazov hired and fired three Central Bank chairmen (Global Witness 2006). Most firings were followed by arrests, precluding the formation of a large group of disgruntled former top officials (Zygar 2005).

The government used a diverse set of coercive tools to not only control public dissent, but also to pre-empt it. The opposition was prohibited by law. The July 1995 protest resulted in 200 people (one fifth of all participants) being arrested (Shermatova 1995; Lubin 1999). The Ministry of National Security and the Ministry of Internal Affairs continued to engage in omnipresent surveillance of the population and limiting both international and domestic travel, especially by remaining journalists, civil society activists and former government employees. Coercion tools were variegated, ranging from destroying the house of an anti-government journalist through placing an activist into a psychiatric facility to outright arrest and some instances, disappearance (Zygar 2005; ICG 2004). Several Turkmen dissidents residing in CIS countries were kidnapped and brought to Turkmenistan for trial (EIU 1996). In 2002, Niyazov allegedly staged an assassination attempt on himself. Former foreign minister Boris Shikhmuradov was indicted with organizing the assassination attempt and put into prison for life when he returned to Turkmenistan in exchange to freeing his detained relatives. Hundreds of people were arrested and 46 convicted after show trials (Zygar 2005; Global Witness 2006). Similar purges were conducted again in 2005 when Niyazov got rid of two close associates, vice-premier Rejep Saparov and oil and gas industry head Elly Gurbanmuradov, who were subsequently received long prison sentences (Zygar 2005).

Coercion, however, was not limited to the political realm. For example, even physicians, like most other people, were sent into fields to gather cotton in autumns (Global Witness 2006). Since 1998, no graduate degree – either master's or doctorate – was granted in Turkmenistan and aspiring students were required to get a government permission to undertake studies abroad (US State Department 2005). The only trade union that had a permission to operate is the the government-controlled Colleagues

Union (Freedom House 2002). Although social and cultural organizations were formally allowed to operate, in reality their functioning was strictly controlled. From late 1990s, the government put limitations on Russian TV channels airing in Turkmenistan and in 1999, the Russian language news broadcast on state radio was stopped. However, one of the main government newspapers, *Neytralniy Turkmenistan*, was still published in Russian (Kuru 2002).

Probably to limit possible outside intrusion, in 1995 Niyazov declared Turkmenistan's permanent neutrality, which was endorsed by a UN General Assembly resolution. At the same time, despite the country's poor human rights record, Niyazov was received in the White House by both President Clinton and Vice-President Gore and signed agreements on the involvement of US companies in Turkmenistan's energy projects (Lubin 1999). By late 1990s, Niyazov also adopted an increasingly cool attitude towards the CIS and in 1999, pulled the country out of the CIS visa-free zone (Pomfret 2001; Zygar 2005; Malysheva 2005).

6.3.1.3 *Regime outcomes*

By 1999, the leadership of Turkmenistan shook off any pretense of democracy. All political power became concentrated in the president who in 1999 was declared president for life by the People's Council and presidential elections were abandoned (Kuru 2002; Freedom House 2002). Niyazov nurtured the cult of his personality, which stretched from erecting a mechanical golden statue saluting the Sun, through having his book likened to Koran and Bible and taught as a prerequisite in schools, universities and driving test centers, to having his picture on vodka bottles (Lubin 1999; Global Witness 2006).

In December 2006, Saparmurat Niyazov suddenly died of a sudden heart attack. There were reports of prison riots, the border with Uzbekistan was closed, and surveillance enhanced (Blank 2007). Although, according to the Constitution of Turkmenistan, Niyazov were to be succeeded by the speaker of the parliament Öwezgeldi Ataýew, the State Security Council appointed the deputy prime minister (i.e. Niyazov's deputy – since the latter was also the prime minister) Gurbanguly Berdimuhamedow as acting president. Ataýew was incriminated by the prosecutor-general. In early 2007, Berdimuhamedow was elected the president of Turkmenistan. Despite the official rhetoric and early international euphoria about possible change, the political regime under Berdimuhamedow remained almost untouched since Niyazov's death.

6.3.2 Kazakhstan, 2000-2007

6.3.2.1 *Political and economic environment*

By 2000, Kazakhstan's political regime was mild autocracy. President Nazarbayev emerged victorious in early 1999 election and the constitution was amended to allow the president to serve seven rather than five years (Furman 2004; Olcott 2002; Cummings 2005). While the earlier parliament was more or less recalcitrant in some issues, such as privatization, by the beginning of 2000s the legislative body was filled mostly by Nazarbayev supporters while his rival former Prime Minister Kazhegeldin's followers were purged both from the legislative and executive branch.

These political developments were helped by the country's recovery from the 1997 Asian financial crisis and improving oil prospects. By 2000, Kazakhstan achieved macroeconomic stability and registered a budget surplus for the first time since gaining independence (Cummings 2005:32). Oil extraction and exports started to grow rapidly in 2000 owing to the discovery of the 9 bln barrel Kashagan oil field, rising oil prices, reaching an agreement with Russia on disputed fields, and availability of several export pipelines (Pomfret 2005, 2006). Since 2000, oil revenues made up to 20% of general government revenue and rose to 30 percent in 2004 (IMF 2004: 18; Pomfret 2006). In 2002, Kazakhstan reached an agreement with Russia over the legal status of the North Caspian Sea. In 2003 alone, oil exports brought around \$2 billion in revenues to the state budget, which made up to 20% of general government revenue since 2000 (Pomfret 2006). The share of oil exports as a percentage of GDP rose from 7.5% in 1998 to 20.9% in 2002 (Najman et al. 2005: 21; World Bank 2005). The gas exports also increased due to a less aggressive position from the Russian Gazprom and favourable prices (Pomfret 2005: 867). Oil and gas rents per capita grew from \$115 in 1998 to \$2039 in 2006 – less than in Turkmenistan, but more than in Azerbaijan (author's calculations).

The growth of Kazakhstan's economy was driven also by increased production in the other two large export-oriented sectors – metals and grain (World Bank 2005; IMF 2004). From 2000 to 2007, Kazakhstan's GDP grew by an average of 10.2% (EBRD 2008).

The oil-led growth also had negative economic effects as non-resource industries eroded further and the country became more dependent on imports (author's interviews with Meruert Makhmutova, Oraz Jandosov, Kanat Berentayev). The shadow economy remained relatively high 42.2% of GDP in 2000-2001 (Schneider 2003). Despite the large windfalls, poverty remained high, especially in rural areas, and income inequality sharply increased in subsequent years, particularly in oil-producing regions (author's interviews with Kanat Berentayev, Janibek Khasan; Pomfret 2006). Due to the growth

and the earlier market reforms, Kazakhstan was the first country in the CIS to be recognized as a market economy by the EU and the United States in 2001 and 2002, respectively (Junisbai 2004; author's interview with Sholpan Mukasheva).

6.3.2.2 *Causal mechanisms/Policies*

Sharply increasing revenues from natural resource production brought large inflows of taxes and royalties to the state budget. The previous attempts to modernize the tax system were continued and in early 2000s the government unified the previous legislation into a new tax code. The code, adopted in 2002, centralized the tax collection system and reduced several taxes, including the social tax (interview with Yergazin Abdrakhmonov). It also gave "pointed" privileges, mainly to the extractive industry and financial sector (interview with Jahangir Jurayev). While the code brought little clarity in areas and complicated the tax administration, the tax system remained nevertheless stable until 2004, which marked the "beginning of the end of stability" (interview with Courtney Fowler)(Boboyev, N., and N. 2002).

In terms of collection, corporate income tax played main role, while the personal income tax remained insignificant (Berdalina and Mustapayeva 2003). By 2005, inflows from large tax-payers, including oil companies, financial sector enterprises, and state enterprises, constituted more than 50% of the state budget, while inflows from medium and small business was insignificant. However, tax expenditures also remained relatively high (Rachenkov 2005). Outside of the energy sector, personal income taxes remained relatively low (author's interview with Tulegen Askarov). Non-oil taxes declined, increasing the non-oil budget deficit. In 2004, the government approved further tax reductions in the non-oil sector, particularly targeting such sectors as petrochemicals, in order to boost growth in these sectors (World Bank 2005). Non-oil deficit rose from 3.2 to 6.6% of GDP between 2001 and 2005 (World Bank 2005: 31).

Initially, between 2001 and 2003, the government was prudent in its public spending. It saved 63% of oil and gas revenues in the newly created National Fund for the Republic of Kazakhstan (NFRK). While it increased public investment from 2 to 4% of GDP to finance infrastructure projects, real wages and pensions were kept constant (World Bank 2005: 20). However, the government expanded public spending by 21% in 2003, 17% in 2004, and further 18 % in the election year in 2005 in real terms, and only about one third of oil inflows were saved during this period (World Bank 2005:30). In 2005, the government increased pensions and public-sector wages by 30% (Brauer 2007: 190). Overall, total expenditure increased from 22 to 26% of GDP between 2000 and 2005 (World Bank 2005:21). The quality of this spending was mixed: although the

government's 'return' to the sectors it had unduly abandoned in the 1990s, such as agriculture, health and education, was partly justified, expansion into new sectors through both budgetary and extra-budgetary funding was unwarranted (World Bank 2005; IMF 2004). Government-sponsored financial institutions' activities grew over time, thus increasing unaccounted off-budgetary spending (World Bank 2005: 22). The practice of large quasi-fiscal activities both by state enterprises and foreign oil companies in different regions continued (Pomfret 2006).

The regional distribution of social spending was also uneven with Almaty, Astana and oil-producing regions receiving much larger per capita social spending than other regions (Pomfret 2006). While government subsidies in Kazakhstan were much less extensive than in Turkmenistan and Azerbaijan, the number of subsidized regions in Kazakhstan grew over time (IMF 2008; author's interviews with Janibek Khassan, Adil Nurmakov). While the public finance system became more centralized than before, it still retained a larger degree of fiscal decentralization than in Turkmenistan and Azerbaijan, particularly when oil-producing regions were concerned (author's interview with Oraz Jandosov, Anton Artemyev).

Although Kazakhstan entered 2000s with a relatively large public sector employment at 21.5% of the labor force, this was on the same level as Kyrgyzstan and much lower than in Turkmenistan and Azerbaijan (ILO 2008; EBRD 2008). The public sector wage bill, however, grew over time, partly reflecting the reform of the civil service that aimed at retaining cadres (World Bank 2005). The oil boom had a limited effect on the overall employment. The oil sector directly employed only a very small percentage of the labor force - the fifty companies involved in oil production in mid-2000s employed a total of only 41,500 people (Najman et al. 2005: 128).

At the same time, previous privatization and economic liberalization resulted in the formation of several semi-autonomous influence groups, each having representatives both in government bodies and business and each vying to influence President Nazarbayev and struggling for power in what was perceived as post-Nazarbayev Kazakshtan. In early 2000s, one such group was led by Nazarbayev's second son-in-law Timur Kulibayev and dominated the oil and gas and financial sector. Another group was led by Nazarbayev's first son-in-law Rahat Aliyev; this group dominated security services and mass media. Another group consisted of relative outsiders – three non-Kazakh businessmen Alexander Mashkevich, Alisher Ibragimov and Patokh Shodiyev, which had major interests in Kazakhstan's metallurgy and had representatives in both president's administration and later parliament. Other groups included ones around an influential banker Mukhtar Ablyazov, Nazarbayev's long-time associate

Nurtai Abykayev and others (APN Kazakhstan 2005). Nazarbayev skilfully used the conflicts among these groups and played on collective action failure to his own advantage.

Ironically, during the Swiss authorities' investigation into now self-exiled opposition leader Kazhegeldin's bank accounts in Switzerland at the request of the Kazakh government in 1999, they also discovered accounts for two companies Orel Capital Ltd. and Bercut Holding Ltd. registered on Virgin Islands under the name of Nursultan Nazarbayev. The Geneva attorney's charged the two companies with money laundering and \$100 million on their accounts were frozen (Romanovskiy 2002). The report from the Swiss attorney's also charged that Nazarbayev, Kazhegeldin and Balgimbayev diverted to their personal accounts bonuses of \$115 million offered by Mobil, Amoco, and Phillips Petroleum (Olcott 2002:148). Nazarbayev aids denied any involvement of the president claiming it to be Kazhegeldin's plot. This incident dominated the opposition political discourse for several years and became substantiated during the "Kazakhgate" – a scandal surrounding James Giffen, Nazarbayev's American advisor between 1995 and 1999, who was officially charged in 2003 under the Foreign Corrupt Practices Act of 1974 by US Department of Justice for paying bribes to Nazarbayev and Balgimbayev to secure contracts for Kashagan oil field for a number of Western companies. Giffen's trial has been postponed five times and his main defense was that he acted along with US government and advanced US national interests (Krastev 2007). The Bush administration opted for keeping a low profile during the trial. During this period Nazarbayev was, however, received both at the White House and in Downing Street (Penketh 2007).

"Kazakhgate" helped to stir a major intra-elite split in post-Soviet Kazakhstan. In November 2001, Kazakhstan's political elite experienced an unprecedented split, likely as a result of frictions over the redistribution of increasingly lucrative resources. Nazarbayev's son-in-law Rakhat Aliyev was forced to resign from his post of Deputy Chairman of the National Security Committee, allegedly due to an alliance of several "old guard" members of the elite displeased with the financial and political influence he had amassed. Aliyev was then appointed deputy commander of the presidential guard, but later sent to Austria as an ambassador, only to return in 2005 as First Deputy Minister of Foreign Affairs and then leave for self-exile in 2006. Subsequently, Aliyev authored a book on Nazarbayev regime titling it provocatively *Godfather-In-Law*.

Apparently following the reconciliation within the presidential family, a group of high-level reformist bureaucrats and several younger generation Kazakh businessmen who made their fortunes in the 1990s announced the establishment of the Democratic

Choice of Kazakhstan (DCK). The group founders included Deputy Prime Minister Oraz Jandosov, Deputy Defense Minister Zhannat Yertlesova, Deputy Finance Minister Kairat Kelimbetov, Pavlodar Governor Ghalymzhan Zhakiyanov, head of the Astana-Holding investment group Mukhtar Ablyazov, and head of Kazkommertz Bank, the largest bank in Central Asia Nurzhan Subkhanberdin. The DCK rapidly attracted members both in the executive and the legislature. This signified the first intra-elite split, which quickly evolved into a full-scale conflict. Several DCK leaders were forced to resign, but some later returned to government service. This split within the DCK and subsequent return of some members to government may suggest that this opposition was only partly genuine. Nazarbayev managed to stay outside intra-elite rivalries (Cummings 2005:28-29). Nevertheless, faced with the DCK experience Nazarbayev spent subsequent years purging the elite and tightening his political control over all branches of government, including reducing to a minimum the role of regional elites in putting forth their candidates for parliamentary seats (Ashimbayev 2007). The DCK was politically marginalized by mid-2000s (Junisbai and Junisbai 2005).

After the DCK experience, coercion also increased. Both the number of politically-motivated killings and the number of political prisoners increased relative to previous years (Cingranelli and Richards 2008). A number of key opposition figures and former ruling elite members, including the DCK co-founders Mukhtar Ablyazov and Galimzhan Zhakiyanov were arrested on corruption charges. The two men allegedly had conflicting business interests with Nazarbayev's daughter Dariga and son-in-law Rakhat Aliyev. A large-scale media and civil society clampdown followed, primarily via overly expensive court rulings but also murders of several journalists and activists.

In November 2005, former Minister of Extraordinary Situations Zamanbek Nurkadilov was found shot dead (RFE/RL 2005). In February 2006, the co-chairman of the opposition party Naghyz Ak Zhol (True Bright Path) and former information minister and mayor of Almaty Altynbek Sarsenbayev was murdered along with two associates (Kimmage 2006). The investigation charged the Sarsenbayev murder to Erzhan Utembaev, the former head of the Senate administration and five former members of the elite Arystan combat division within the Committee for National Security (KNB) (RFE/RL 2006b, 2006a). Utembayev and Nartai Dutbayev, the-then KNB head were associates of Nurtai Abykayev, the oldest Nazarbayev aide and reportedly the ally of his second son-in-law Timur Kulibayev (Kimmage 2006).

6.3.2.3 *Regime outcomes*

As a result of clamdowns, few hopes remained attached to September 2004 parliamentary elections. The three major pro-regime parties, Otan, Asar, and the AIST bloc, and “independent” self-nominated candidates took all seats in a grossly flawed election, leaving a single seat to the moderate opposition group Ak Zhol, which subsequently relinquished it. Large and influential opposition parties DCK and the Communist Party failed to pass the 7 percent threshold (Dave 2005). The December 2005 presidential elections, again brought forward to leave key rivals with little time for a serious campaign and similarly marred with irregularities, gave Nazarbayev 91 percent of the vote (Dave 2007). The political regime in Kazakhstan developed from mild into moderate autocracy.

6.3.3 **Azerbaijan, 1998-2008**

6.3.3.1 *Political and economic environment*

President Aliyev re-emerged winner in presidential elections in 1998, which were little contested due to the key opposition leader's decision to boycott the poll. Having consolidated his power, Aliyev moved on to further concentrate power in the presidency and weaken the parliament. The 2000 parliamentary elections, which the OSCE observers reported as falling short of international standards, ensured that pro-government candidates took the critical majority of seats (Guliev 2006). From 125 seats the ruling New Azerbaijan Party took 75 seats and independents (usually pro-regime intelligentsia or businessmen) took 30 seats, while the three major genuine opposition parties took 10 seats in total (Nohlen, Grotz, and Hartmann 2001).

Favorable economic environment, sharply rising oil-related FDI, which peaked at 40% of GDP in 2004, and increasing oil output since 2003, helped Aliyev's efforts (IMF 2005: 7; author's interview with Azer Mehtiyev). In 2001, \$360 mln from oil bonuses covered the country's budget deficit (author's interview with Nazim Imanov). By 2005, before exporting large amounts of oil, the State Oil Fund (SOFAZ), established in 1999, accumulated around \$1 billion even after sponsoring several large social and infrastructure projects (SOFAZ 2008). Between 2000 and 2006, oil and gas rents per capita rose five-fold from \$313 to \$1608 (author's calculations based on data from World Bank 2009 and Ross 2009). As a result, poverty declined from 60 percent in 1994 to 40 percent in 2004 (IMF 2005: 3).

At the same time, the country's dependence on oil and gas exports also increased: by 2006, the export of oil and oil-related products made up to 84% of total exports and the share of oil sector in GDP, around 43% (PFMC 2006). Inequality also rose – the Gini

coefficient for adult population was already high 0.35 in 1999 and energy sector salaries were ten times higher than in agriculture (Petri and Taube 2003: 25). Shadow economy also flourished to 60.1% of GDP in 2000-2001 (Schneider 2003).

6.3.3.2 *Causal mechanisms/Policies*

The taxation data for this period is more controversial. From early 2000s, tax rates were lowered, especially after 2003 (author's interviews with Gubad Ibadoghlu, Azer Mehtiyev). Tax revenues from the oil and gas sector, as in Russia and Kazakhstan, also remained relatively small compared to oil producers elsewhere in the world (Stepanyan 2003: 13). Between 2003 and 2007, excise taxes were frequently increased, while the corporate income tax rate was lowered from 24 percent to 22 percent, and the social security contributions by employer and employee were lowered to 25 percent in 2004 from the previous 28 percent. The VAT, personal income tax, and enterprise profit tax were the main contributors (Stepanyan 2003: 3). The VAT made up to 38 percent of non-oil tax revenues, income taxes 28%, and social security contributions 14% (Zermeno 2008:6). However, in regional perspective, personal and corporate income tax rates were relatively high in Azerbaijan (Zermeno 2008: 3). Some data also suggest that non-oil tax revenues increased from 20% in 2003 to 32% in 2007 (Zermeno 2008: 15), perhaps partly reflecting the extent of previous decline.

Most important, many observers believe the revenue side of the budget was deliberately lowered and did not account for predatory informal taxation that fed extra-budgetary institutions (Bagirov 2004). While formally tax rates were low, businesses, especially local medium and small non-state enterprises, were not relieved from informal taxes that fed informal extrabudgetary funds (interview with Gubad Ibadoghlu). What outsiders saw as a modernization of the taxation system, which it indeed partly was, local observers regarded as streamlining of "parallel administration" institutions (author's interview with Ingilab Ahmadov; Azer Mehtiyev). This modernization also eliminated all traces of fiscal decentralization and regions became even more dependent on the center for subsidies. The key reason for this was that oil was produced in the capital, so, it was partly natural that regions depended on the center (author's interview with Vagif Rustamov).

Increased oil revenues, however, did have a clear effect on public spending, which increased substantially between 2000 and 2007. Even before the sharp increase in exports in 2005, the government increased its spending. While it increased from 9.5% to only 11% as a percentage of GDP, in per capita terms it increased from \$62 to \$267 (author's calculations based on World Bank 2009). In 2003, the government increased

public sector wages by 80% (IMF 2005: 7). Health and education expenditures grew in real terms by an average of 14% percent per year (IMF 2005: 14). Between 2005 and 2007, total government expenditure increased by a cumulative 160% in nominal terms (Koeda and Kramarenko 2008). The bulk of this spending was towards infrastructure projects, particularly after 2006, and social welfare, particularly targeting the needs of IDPs from the Mountainous Garabagh and adjacent rayons occupied by Armenian forces. Both the extent and quality of such an expansion in spending was mostly unjustified.

But public spending was not limited to official budget spending as extra-budgetary funds, notably the SOFAZ, also engaged in sponsoring infrastructure and welfare projects. Creation of SOFAZ was indeed a positive step as it was to serve two main functions of stabilizing public finances by isolating oil revenues from the rest of the economy and saving these revenues to ensure intergenerational equity or to cover small budget deficits. According to its executive director Shahmar Movsumov, President Aliyev also faced tacit resistance inside the elite to the idea of isolating oil windfalls from the budget (author's interview with Shahmar Movsumov). However, SOFAZ was soon vested with two other functions: developmental and social. Coupled with the fungibility of fiscal resources and generally lax nature of fiscal policy after the oil windfalls, this significantly reduced SOFAZ's effectiveness as an instrument of stabilization and saving. By 2009, it spent more than \$6 billion on infrastructure projects and more than \$700 million on housing for IDPs, in effect acting as an extra-budgetary institution (Zerkalo 2009).

SOCAR, the state oil company, also expanded its quasi-fiscal operations, which became even more opaque over time, and domestic mispricing of energy resources (Petri and Taube 2003; IMF 2005: 14; author's interview with Zohrab Ismayil). In 2000, energy sector quasi-fiscal activities were around 22% of GDP (Petri and Taube 2003: 5). Large state enterprises, including SOCAR and its subsidiaries, enjoyed huge tax arrears (Petri and Taube 2003). According to some observers, some tax "arrears" were in fact collected – they simply did not enter the official budget's revenue side (author's interview with Azer Mehtiyev).

From 2000 to 2006, public sector employment remained unchanged at around 32% of the labor force. However, between 2006 and 2008 it grew by 4% (ILO 2008). Since regulatory bodies provided opportunities for 'contrived rents', rent-seeking grew over time (author's interview with Yadulla Hasanli). While contributing around 45% of GDP, the oil sector employed only around 1% of the labor force. Agriculture, on the other hand, was nominally the largest employer at 40%, while contributing 6-7% to GDP (author's interview with Vagif Rustamov).

Two critical political events during this period highlighted the role of oil resources in general and coercion in particular in the stability and entrenchment of autocratic regimes in oil-rich countries. The first was the presidential election in 2003. As the poll approached, the ruling elite conducted a referendum on amending the constitution to entitle the prime minister with presidential responsibilities in case the incumbent president becomes incapable of fulfilling his role. This was apparently done to ensure a smooth succession of power to Aliyev's chosen successor as the former entered his 80s and experienced heart problems. His heir apparent was his son Ilham Aliyev, SOCAR vice-president and ruling Yeni Azerbaijan Party vice-chairman, who subsequently was appointed the prime minister. Closer to elections Heydar Aliyev was taken to a clinic first in Turkey and then the US for treatment and endorsed his son's candidacy in writing from Cleveland, Ohio. Following the established practice, the results of the presidential poll were reportedly falsified and Ilham Aliyev emerged as the winner, despite various exit polls reporting much more mixed results with some even claiming that his main rival, opposition Musavat party leader Isa Qambar received a larger percentage of votes. On the evening of the poll, several hundred opposition activists gathered in front of the Musavat party headquarters demanding vote recounting. They were attacked by police forces and several hundred civilians in black uniforms, who were reportedly the members of pro-government private armies, particularly the one led by a wealthy businessman Husein Abdullayev. The following day around 5000 protestors, including those who arrived from regions, marched through central Baku towards the main Azadlyq (Freedom) square when they were crushed by several thousands troops deployed in the capital. Several people died and around 200 people, including opposition leaders, were arrested. According to local and international observers, the relatively small size of the protests indicated two factors at play: improved economic conditions and deterring power of the regime repressive capacity (author's interview with an anonymous opposition leader; Zardusht Alizadeh).

Several days later, Ilham Aliyev was declared president by the Central Election Commission, but even before that was congratulated over the phone by the US Deputy Secretary of State Richard Armitage (Dinmore 2003; Guliev 2006; Aliyeva 2006). This was the first dynastic succession in FSU. Two months later Heydar Aliyev died in the clinic in the US.

The second political event was 2005 parliamentary elections. This poll was a test for the renovated ruling elite's robustness and regime stability. Prior to the elections, three ministers and other high-level officials were accused of staging a coup d'état, conspiring with the former speaker of the parliament Rasul Guliyev, and arrested by the

Ministry of National Security (MNS). The Minister of Public Health Ali Insanov was one of the leaders of the *Yeraz* (Azerbaijanis from Armenia) regional grouping. Several other arrested officials were also from *Yeraz* grouping. However, another minister, the Minister of Finance Fikrat Yusifov, was from Nakhchivan. The other, Farhad Aliyev, himself being a powerful figure as the Minister of Economic Development and formerly wealthy businessman, was the leader of an uninfluential regional group from southern Jalilabad region of Azerbaijan. Rasul Guliyev, a one-time sponsor of Aliyev's ascent to power, however, was tacitly one of the most powerful politicians from Nakhchivan, although by this time his popularity among elite members from Nakhchivan had probably waned. It is unclear what role regionalism played in this regrouping in the ruling elite. It is plausible that the core ruling elite around Ilham Aliyev, including the head of the presidential office Ramiz Mehdiyev (Nakhchivan, although born in Baku), the head of the State Customs Committee Kamaladdin Heydarov (Nakhchivan) and the first lady Mehriban Aliyeva (Baku) decided to sideline some *Yeraz* leaders and those Nakhchivani politicians who were seen as Rasul Guliyev supporters. However, the fact that alleged conspirators nominally (due to their 'clan' background) represented different, not the same, groupings and the fact that underlines that two key issues perhaps were those of personal loyalty to Ilham Aliyev and political ambition, not clan or regional affiliation.

The elections were the first parliamentary elections based purely on the majority (single member plurality) system. As conventional, widespread intimidation against opposition activists was used and the poll was rigged. Most international observers characterized the poll as neither fair, nor free. The main opposition bloc *Azadlyq* secured only 7 seats out of 125, contrary to some exit poll findings. The opposition did not recognize the results and staged massive peaceful protests throughout the country for several days. All protest demonstrations were violently crushed by police forces, particularly a several-thousand meeting in Baku, and hundreds of opposition activists were arrested. Whereas European structures, such as the Parliamentary Assembly of the Council of Europe (PACE) threatened Azerbaijan's government with sanctions, the United States, after initially critical position, soon recognized the legitimacy of the new parliament (Alizade 2006; Aliyeva 2006; Guliev 2006).

6.3.3.3 *Regime outcomes*

By 2006, the renovated ruling elite led by Ilham Aliyev consolidated its position through high public spending, coercion, and several political maneuvers. The political regime – moderate autocracy – remained unchanged. Unlike his father, Ilham Aliyev

possessed no charisma or superb leadership skills. However, inside the ruling elite he was mostly seen as the most “legitimate” heir whose election could preclude cracks in the ruling elite cohesion (author’s interview with two government officials; Zardusht Alizadeh).

6.3.4 Kyrgyzstan, 1997-2005

6.3.4.1 Political and economic environment

Having consolidated his power by 1997, President Akayev moved on to secure his tenure for future presidential elections. In 1998, he engineered the Constitutional Court ruling that allowed him to stand as a candidate in 2000 presidential elections on the grounds that he was at the time serving his first, not the second, term in office. Subsequently, he started pushing through several constitutional amendments aimed to weaken parliamentary opposition to his proposed legislation. De-decentralization in regions was also under way.

Akayev regime’s stability in late 1990s and early 2000s was helped by two factors: favourable economic environment from 1999 onwards and large foreign aid. The Asian financial crisis in 1997 hit Kyrgyzstan’s economy and the GDP grew only by 2.1% in 1998. However, strong growth in the agricultural sector and partly the development of Kumtor gold field, which accounted for around 7% of GDP in 1999, resulted in a relatively steady economic growth from 1999 to 2005 (World Bank 2009; EIU 2000). The GDP growth recovered to 3.7% in 1999 and grew by an average of 5% between 2000 and 2005, except in 2002 when it didn’t grow at all, apparently due to the destabilizing effect of Aksy events, described below (EBRD 2008; EIU 2000: 18). However, non-gold industrial production did not show any growth. The country’s vast electricity-production capacity was formally not exploited in full, but observers and some government officials agree on that the electricity sector was simply connected to a large shadow economy enterprises and much of the produced electricity was sold abroad at market prices (author’s interview with an anonymous MP, Azamat Dikambayev, Zarylbek Kudabayev, Madat Tiulegenov). The relatively large shadow economy was estimated at around 39.4% of GDP in 2000-2001 (Schneider 2003). However, the country was relatively open for reforms and, in 1998, became the first CIS country to join the World Trade Organisation (WTO).

Foreign aid increased from \$67 to \$73 and then decreased to \$58 per capita (author’s calculations based on data from World Bank 2009). This was twice more than overseas assistance received by Azerbaijan, almost four times more than that by Kazakhstan, and six times more than that received by Turkmenistan (World Bank 2009).

On average, foreign aid provided around 30% of the state revenues and covered large budget deficits (author's interviews with Madat Tiulegenov, Zarylbek Kudabayev). This substantially affected the state's autonomy (author's interview with Zarylbek Kudabayev). While donors could influence economic policies, they had little direct leverage over political developments (ICG 2004).

6.3.4.2 *Causal mechanisms/Policies*

Although they increased slowly as a percentage of GDP from 13% in 1996 to 14% in 1998, taxes remained chronically low (Tanzi and Tsibouris 2000). Taxes on income, profits, capital gains, goods and services as a percentage of GDP also remained roughly unchanged – they constituted around 11.7% of GDP in 1997, 12% in 2001 and 11.7% in 2006 (World Bank 2009). As a percentage of government spending, these taxes also remained broadly unchanged, and were more than twice lower than in Kazakhstan and roughly similar to their level in Azerbaijan (author's calculations based on the data from World Bank 2009). Low taxes were due to poor collection system and large shadow economy, which narrowed the tax base (author's interview with Jumakadyr Akeneyev; Nookat Idrisov). At the same time, local observers contend that, although the official budget was small, the informal one, which included considerable 'contrived' rents and proceeds from quasi-fiscal operations, was much larger (author's interview with an anonymous MP, Jumakadyr Akeneyev, Zarylbek Kudabayev, Nookat Idrisov, Madat Tiulegenov, Shairbek Jurayev).

During this period, government spending as a percentage of GDP fluctuated between 17 and 20% (World Bank 2009). However, in per capita terms, after an initial decline due to the Asian financial crisis it dropped from \$64 in 1997 to \$49 in 1999, but then steadily recovered reaching \$90 in 2005 (author's calculations based on the data from World Bank 2009). Government budget recorded a steadily decreasing deficit and in 2000 recorded a small surplus. At the same time, budget planning and efficiency remained low. The government continued to provide excessive subsidies to various sectors. Although its subsidization of health and education sectors was partly justified, large subsidies to state enterprises eroded fiscal discipline (author's interview with Nookat Idrisov, anonymous MP). As a result, largest state enterprises, particularly the electricity-production industry, were surrounded by a circle of shadow enterprises (author's interview with Azamat Dikambayev). In effect, internally subsidized energy was re-sold abroad at market prices through subsidiaries (author's interview with an anonymous MP, Nurlan Djoldoshev). Due to domestic opposition from state enterprises and lack of investor interest, Akayev administration did not privatize these industries.

Cumulative privatization proceeds remained relatively low reaching 7.4% of GDP in 2005 (EBRD 2008). Although twice larger than Azerbaijan's, this was four times smaller than Kazakhstan's government's privatization proceeds.

Public sector employment steadily decreased. Whereas in 1997 26% of the labor force was engaged in the public sector, in 2005 it was only 18.5% (ILO 2008). At the same time, there was a fluctuation in the number of government agencies and in the size of employment within various sectors, giving the government a space for maneuver. For example, over time, health sector grew, while the education sector shrank (author's interview with Sergey Masaulov, former high-level Ministry of Finance official).

From late 1990s, Akayev's political appointments were characterized by three main features. First, Akayev frequently rotated people in the public service. As a result, by mid-2000s there was a large cohort of disgruntled former government officials, including many former ministers. Second, public service posts were literally sold. Second, Akayev increasingly relied on his family members in political decision-making in general and personnel policy in particular and brought relatives and family friends into government jobs. Akayev relatives were also intruding into most of the lucrative businesses. According to former elite insiders and local observers, his wife Mairam Akaeva managed many of the appointments during this period (author's interview with an anonymous MP, former high-level Ministry of Finance official; Kuban Omuraliyev, Sergey Masaulov, ICG 2004). These factors significantly undermined Akayev's legitimacy, particularly in southern regions of Kyrgyzstan, which increasingly felt underrepresented in government bodies. This disgruntlement, coupled with the rule elite's poor handling of a series of crises and the continuing economic difficulties of the large part of the population, would cause the instability of Akayev's regime eventually leading to its collapse.

In 2000, Akayev faced a double challenge – parliamentary and presidential elections. His former close associate, security chief and vice-president Felix Kulov gained popularity as a leader of opposition and announced that he will be contesting the presidency. Before parliamentary elections, the Akayev administration blocked two opposition parties - the Democratic Movement of Kyrgyzstan and the People's Party – from participating on ambiguous grounds. The election itself witness widespread gerrymandering and fraud. Although some opposition leaders were elected into parliament, Kulov remained outside of it. Before presidential election, the administration pushed forth a new requirement for Kyrgyz language test for presidential candidates, apparently to undermine the Russian-speaking Kulov. The same year Kulov was arrested for embezzlement and sentenced to ten years in prison. Other strong

candidates were forced to withdraw or were arrested on dubious grounds, such as a businessman Daniyar Usenov, and Akayev emerged as the winner (ICG 2004).

After the presidential elections, political tensions in the south of the country mounted until 2002 when the arrest of an opposition MP Azimbek Beknazarov ignited several demonstrations of protest in the southern district of Akty. Misjudging potential consequences, the security services opened fire on demonstrators killing five people. This stirred a series of large-scale marches in the south. In a sign of protest, Prime Minister Kurmanbek Bakiyev resigned from his post and later joined the opposition. Subsequently, Akayev called a constitutional council that included members of the opposition, to consider changes in the political system. However, he outmaneuvered the opposition and held a quick referendum that confirmed him in power until 2005 (ICG 2004).

2005 parliamentary elections proved fatal for Akayev administration. Several Akayev family members, including his daughter Bermet Akayeva and son Aidar Akayev, also joined the race. Following the previous pattern, Akayev took measures to install a parliament loyal to him. Due to mismanagement, only 28 candidates were able to secure the required majority into a 75-seat parliament. This stirred a wave of protest across the country against the government's manipulation of the election.

Akayev, used to a weak opposition, miscalculated the possible effect of four factors. First, the extent of alienation among the public, especially in the south, autonomous businessmen, and intellectuals was critical (ICG 2005; author's interview with Nurlan Djoldoshev). For example, an internationally-famed psychiatrist Jenishbek Nazaraliyev popular among young people for his unique method of treating drug addiction threw all his weight behind the opposition (ICG 2005).

Second, Akayev's exclusionary policies resulted in a large cohort of opposition leaders, who, after some period of chaos, were eventually able to mobilize their available resources, direct the wave of protest, and overcome collective action problem among themselves. The traditional opposition was strengthened by a large number of alienated former government officials and business elites. Many businessmen, even those at some point close to Akayev family, were running independently and were frustrated when they "lost" to Akayev associates (Radnitz 2006; Lewis 2008).

Third, if Akayev possessed enough financial and administrative means, he could have quelled dissent; however, the state capacity was low and security services possessed neither sufficient resources, nor were loyal enough to Akayev, to participate in the crackdown (author's interview with Kuban Omuraliyev). The public and the opposition

was aware of this as a result of Aksy events and government officials were captured or kept hostage by demonstrators (Lewis 2008; Tursunkulova 2008).

Finally, while the role of Western assistance and NGOs in “Tulip Revolution” may be insignificant (Juraev 2008; Lewis 2008), the lack of support to Akayev from Moscow – after the former accommodated US interests by providing the Manas airbase – may have been a critical factor in the downfall of his power (ICG 2004; author’s interview with Nookat Idrisov).

6.3.4.3 *Regime outcomes*

Following the clashes across the country and the inability of the state to put down unrest, Akayev hurriedly fled to Russia and resigned from there. The opposition, which by now consisted of many former regime insiders, assumed power in what became known as the “Tulip Revolution”. The autocratic regime of Akayev collapsed giving way to a period of democratic instability.

6.4 **Similarities and differences in causal mechanisms**

Table 6-2 provides a summary of similarities and differences in outcomes – causal mechanisms and regime outcomes. It shows three patterns. First, the regime outcome in the resource-poor Kyrgyzstan provides a preliminary corroboration of the resource curse hypothesis. Second, as in the previous periods, although the regime outcomes roughly confirmed the prediction of the rentier state theory and resource curse hypothesis, not all *causal mechanisms* followed the predicted pattern. Finally, the regime outcome in Kazakhstan became similar to that of Azerbaijan while both autocracies were still different from Turkmenistan’s extremely autocratic regime. The following subsections examine the differences in each causal mechanism.

6.4.1 **Revenues**

During this period, the four countries had both similarities and differences in their revenue-side fiscal policies and tax collection. First, while all three resource-rich countries would be expected to lower taxes as the oil and gas revenues increased, the data suggests a more mixed, if not complex, picture. Some taxes, such as corporate income taxes increased across the three countries. But individual income taxes increased in Kazakhstan and partly in Azerbaijan, although the rates were lowered in both. Kazakhstan’s taxes from income, profits, capital gains, goods and services increased relative to other countries both in terms of GDP and as a fraction of government spending (Figure 6-1 and Figure 6-2). Therefore, only Turkmenistan seems to corroborate the resource curse hypothesis on taxation. At the same time, large tax

Table 6-2. Outcome Variables, Ordinary And Extraordinary Times

		<i>Lowered taxes?</i>	<i>Increased spending?</i>	<i>Increased public employment?</i>	<i>Increased coercion?</i>	<i>External legitimation?*</i>	<i>Regime outcome</i>
Turkmenistan	1995-2007	predicted*: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: yes	unlimited autocracy
Kazakhstan	2000-2007	predicted: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: no	predicted: yes; actual: yes	predicted: yes; actual: yes	moderate autocracy
Azerbaijan	1998-2007	predicted: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: mixed	predicted: yes; actual: yes	predicted: yes; actual: yes	moderate autocracy
Kyrgyzstan	1997-2005	predicted: no; actual: no	predicted: no; actual: mixed	predicted: no; actual: no	predicted: no; actual: mixed	predicted: mixed; actual: mixed	mild autocracy; breakdown

Note: * 'Predicted' stands for 'predicted by the *rentier state* theory and/or resource curse hypothesis.

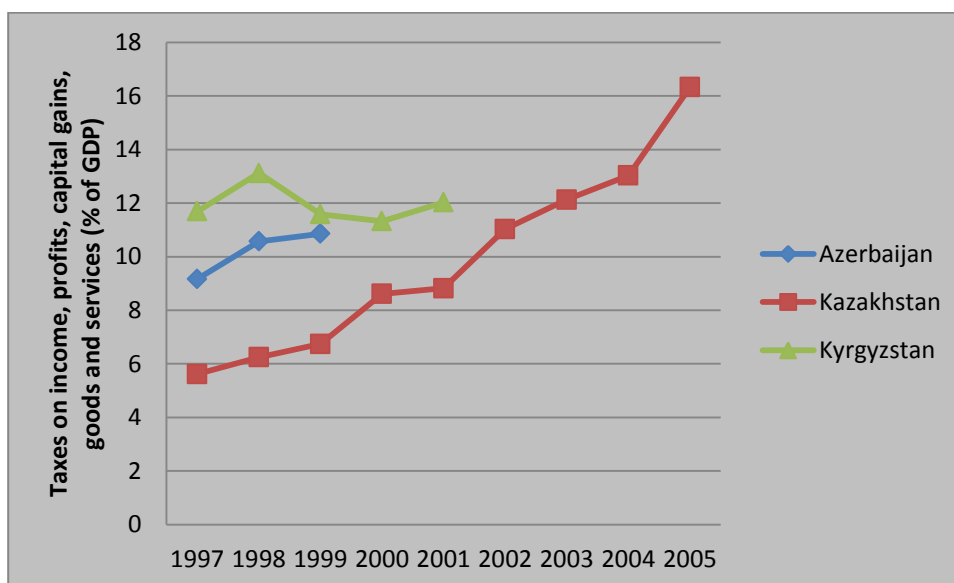
** 'External legitimation' is suggested by the present study.

expenditures, such as arrears and privileges, particularly to state enterprises (i.e. supporters of the ruling elite and its channels of redirecting state resources) seem to confirm that thesis.

Second, Kyrgyzstan's taxes from income, profits, capital gains, goods and services were larger (for the period, for which the data is available) than those in the resource-rich countries, confirming the resource curse hypothesis on taxation. However, a better measure – taxes as a fraction of government spending – yields different results: Kazakhstan's taxes from income, profits, capital gains, goods and services was at least as large as in Kyrgyzstan (again, for the period, for which the data is available), thus undermining that hypothesis.

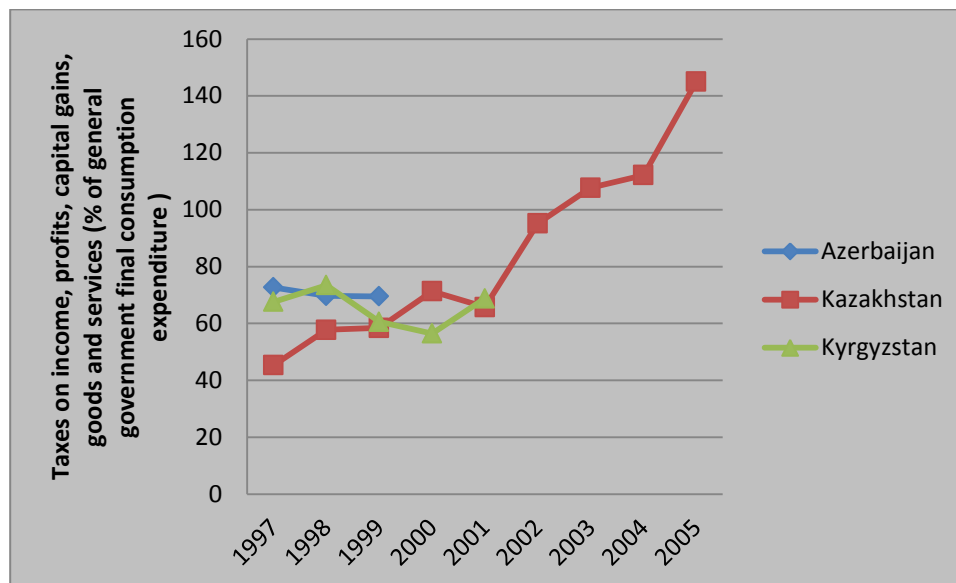
Finally, Kazakhstan wide scale privatization continued accruing large revenues, while the degree of privatization remained quite low not only in Turkmenistan and Azerbaijan, but also in Kyrgyzstan (Figure 6-3).

Figure 6-1. Taxes in % of GDP, 1997-2005



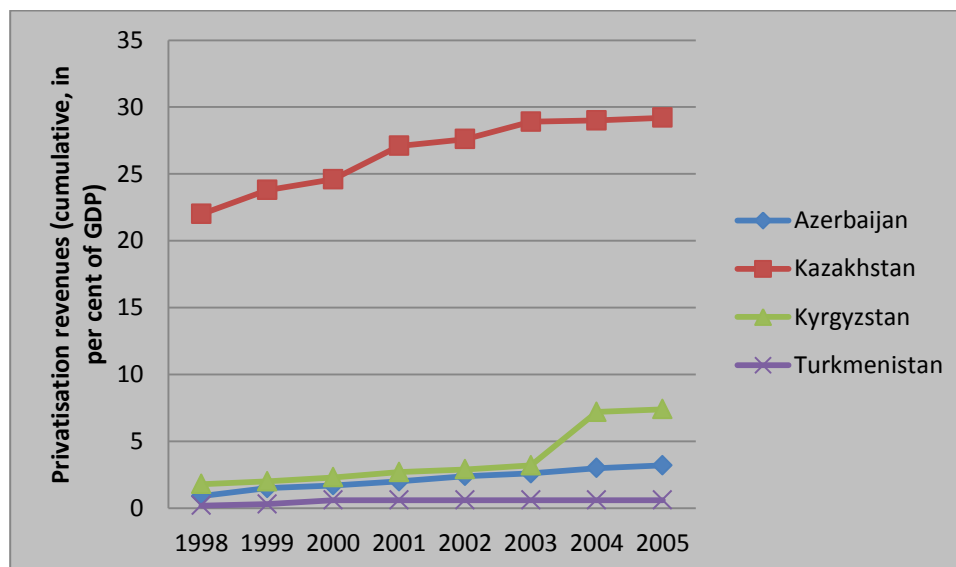
Source: World Bank 2009

Figure 6-2. Taxes as a Fraction of Total Government Spending



Source: Author's calculations based on the data from World Bank 2009.

Figure 6-3. Privatisation Revenues (cumulative, in per cent of GDP)



Source: EBRD 2008.

6.4.2 Spending

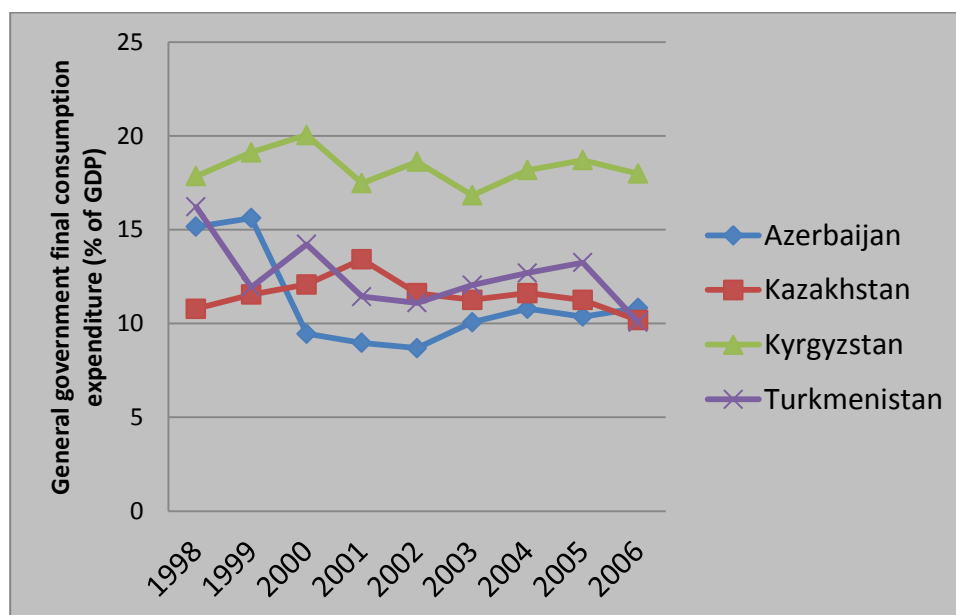
Public spending during this period was characterized by three groups of patterns. First, the oil-rich countries spent more than oil-poor Kyrgyzstan. In GDP terms, government spending in Turkmenistan, Kazakhstan and Kyrgyzstan remained relatively

unchanged, while Azerbaijan's even decreased (Figure 6-4). However, the picture looks different when we adopt a different, perhaps a more valid measure – public spending *per capita*. This measure shows that the oil-rich countries indeed spent more than oil-poor Kyrgyzstan (Figure 6-5). However, the pattern of spending across the oil-rich states would challenge the resource curse thesis as Kazakhstan, whose oil and gas rents per capita, were more than twice smaller than those of Turkmenistan, spent significantly more than the latter.

Second, expenditure categories were also different across the four countries, including within the oil-rich set. Azerbaijan, for example, spent significantly more on social issues than both Kazakhstan and Turkmenistan, who at some points during the period cut social spending. However, considerable quasi-fiscal activities in all four countries suggest that the budgeted social spending may not be the most precise indicator of social spending.

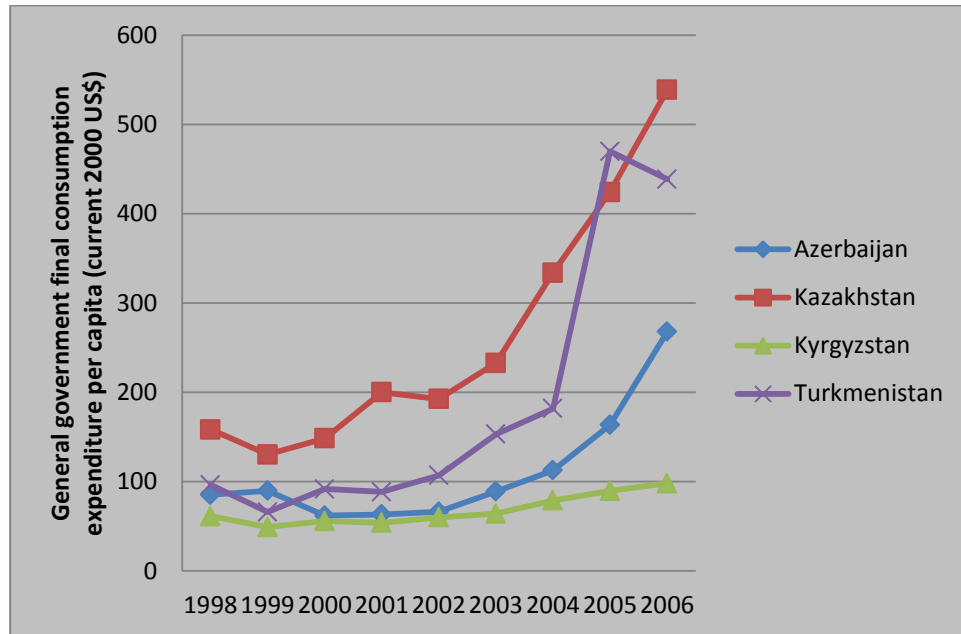
Finally, patterns of spending in three categories – capital investment, subsidies to state enterprises, and tax expenditures – suggest that over time the ruling elites in all three oil-rich states channelled oil and gas windfalls significantly more towards their influential clients and supporter groups.

Figure 6-4. General Government Final Consumption Expenditure (% of GDP)



Source: World Bank 2009

Figure 6-5. Government Spending Per Capita, 1998-2006



Source: Author's calculations based on the data from World Bank 2009

6.4.3 Public sector employment and appointments

Public sector employment patterns provide mixed support of the resource curse hypothesis that oil-rich countries will tend to increase the size of the labor force employed in government or other public sector jobs. In Turkmenistan, public sector employment remained high and in Azerbaijan, it remained relatively high and started to increase after 2006. In Kyrgyzstan, on the other hand, government employment gradually decreased reaching the relatively low level of 18.5% of the labour force in 2005 (Figure 6-6). However, interviews with both observers and government insiders suggest that in Kazakhstan public sector employment might have remained on the same level as before 2000, which was roughly similar to that of Kyrgyzstan during the same year.

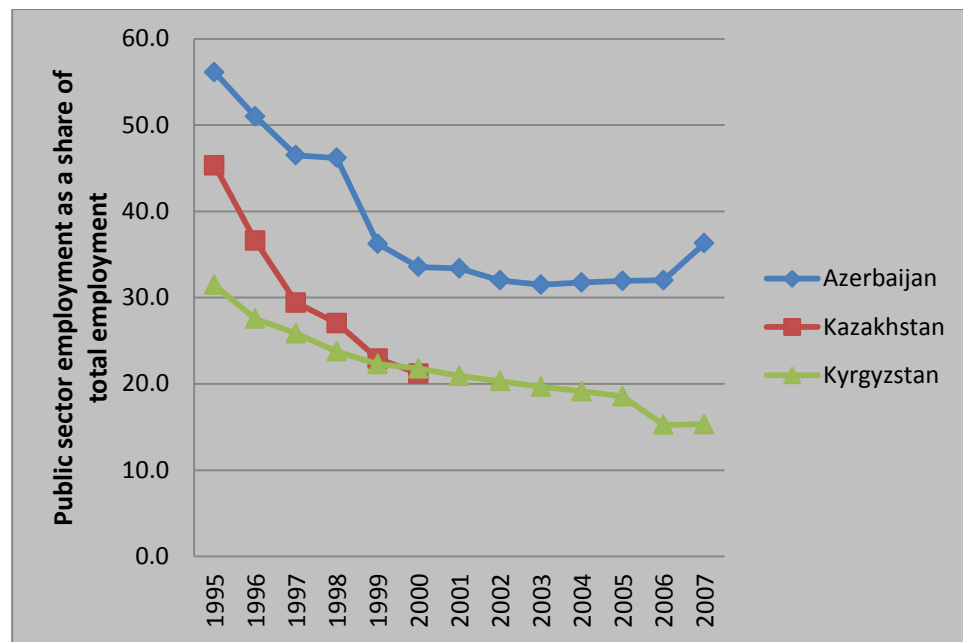
Public appointments were characterized by three patterns. First, the ruling elites in all four countries continued the previous trend of reducing the size of their coalition in a pattern suggested by the minimum-winning coalition logic (Riker 1962; Jowitt 1975). Unlike in the previous period, however, the related personnel reshuffle in Kazakhstan and Kyrgyzstan roughly approached the level of Azerbaijan, although still not that of Turkmenistan.

Second, the degree of regionalism in public office appointments continued to differ. Azerbaijan's ruling elite displaying higher degree of regionalism than its counterparts in the

other countries and Kyrgyzstan's leadership's became more regionalist over time than before.

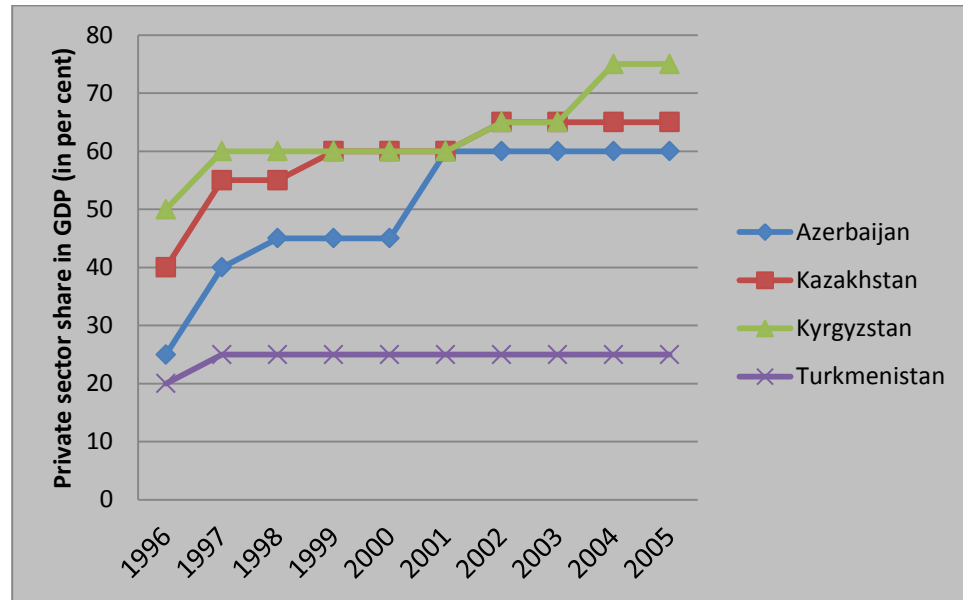
Finally, due to the large exodus of Russians and other Slavic peoples from Kazakhstan and Kyrgyzstan and high economic growth in Russia, which then could afford accommodating its kin from the FSU, the ruling elites in these countries felt increasingly less compelled to treat the Russian population differently, including ensuring at least some degree of ethnic balance in public appointments.

Figure 6-6. Public Sector Employment, 1995-2007



Source: ILO 2010

Figure 6-7. Private Sector Share in GDP, 1996-2005



Source: EBRD 2008b

6.4.4 Coercion

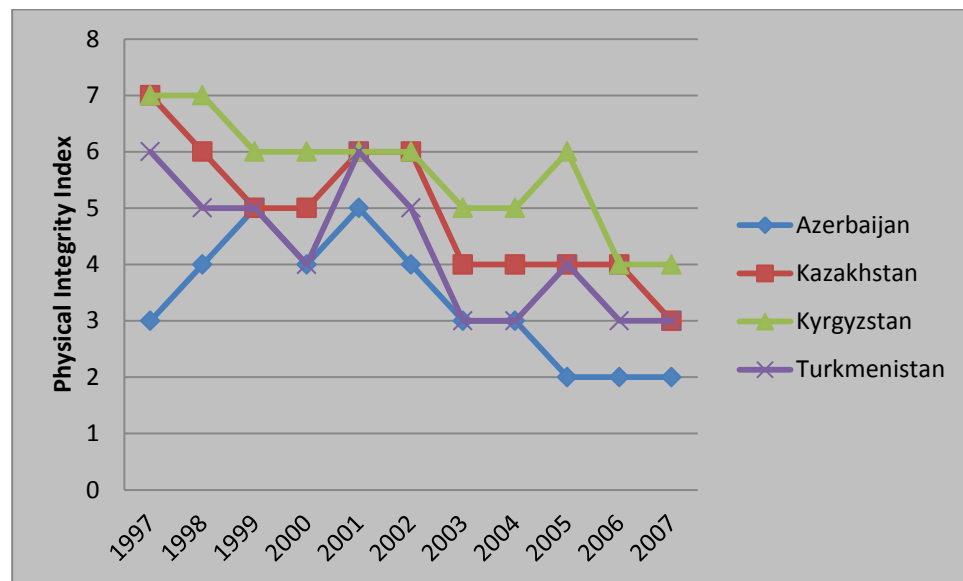
Coercion was characterized by four patterns. First, all four countries increased their level of repression, although it was relatively lower in Kyrgyzstan than in the oil-rich countries (Figure 6-8). However, Kyrgyzstan's level of repression was higher relative to the previous periods. What distinguished Kyrgyzstan's case from the oil-rich states is its low coercive capacity, which ultimately was one of the contributing factors of the downfall of Akayev regime. The best available proxy⁵⁶ is military expenditure – given that the line separate the use of military force for international and domestic purposes is blurry. Figure 6-9 displays the dynamics of change in military expenditure and shows that Azerbaijan, Kyrgyzstan had relatively similar and increasing military expenditures as a fraction of their respective GDPs. Kazakhstan, on the other hand, had a lower spending. However, Figure 6-10, which displays the dynamics of change in military expenditure *per capita* shows a different picture. Turkmenistan till 1999 had the largest military spending per capita. In 2000s, Azerbaijan and Kazakshtan increased their military spending significantly more than Kyrgyzstan. This provides a corroboration of this study's hypothesis that resource-rich states on average have a higher *coercive capacity*, which, in turn, can have a larger deterring

⁵⁶ The United Nations' Surveys on Crime Trends and the Operations of Criminal Justice Systems provides data on many countries, including FSU. However, the data on the cases examined in this study is scarce and uneven precluding systematic analysis.

effect than in resource-poor countries that cannot afford sustaining such repressive apparatus.

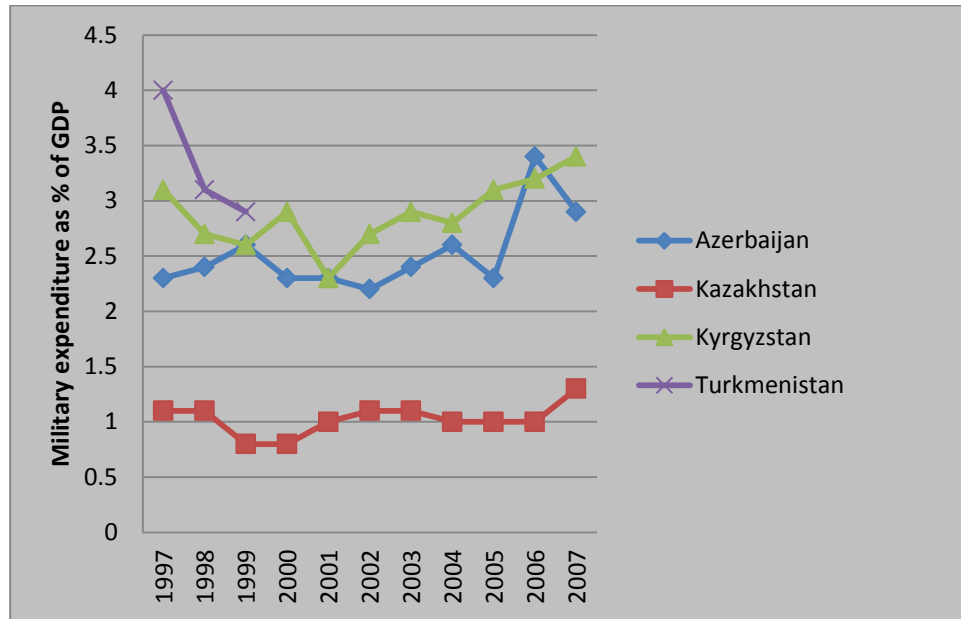
Finally, although the governments in all four countries tightened political participation, the competitiveness of political participation varied across the four countries with Turkmenistan's authorities suppressing political participation of any alternative group while Kyrgyzstan remained the most liberal.

Figure 6-8. Repression, 1997-2007



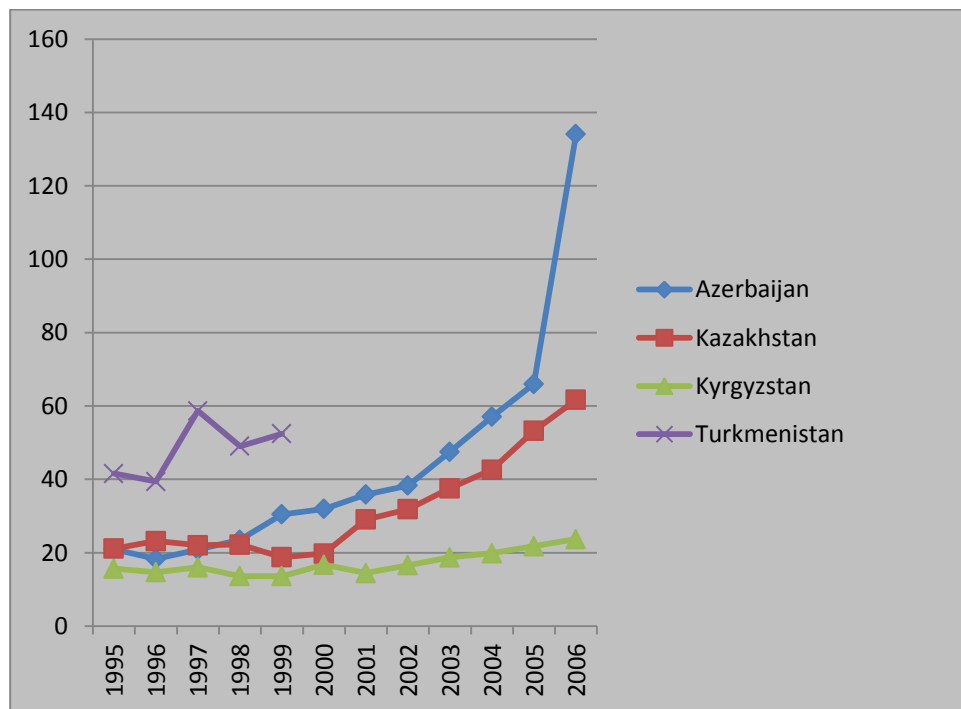
Source: Cingranelli and Richards 2008

Figure 6-9. Military Spending as % of GDP, 1997-2007



Source: SIPRI 2001

Figure 6-10. Military Spending per capita, 1997-2007



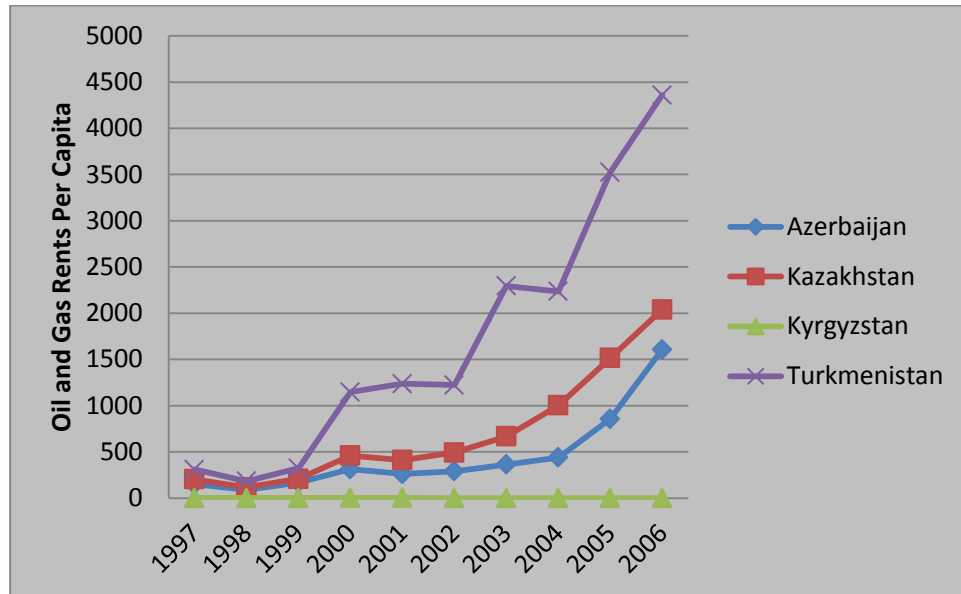
Source: SIPRI 2001

6.5 Conclusion: sources of differences

6.5.1 Natural resource wealth and foreign aid

As in the previous period, oil and gas revenues were an important factor underpinning regime stability in Turkmenistan, Kazakhstan, and Azerbaijan. From late 1990s and particularly 2000s, all three countries experienced large growth owing largely to both oil and gas related FDI and increased production and export of these resources (Figure 6-11). In all three countries the significant rents associated with oil and gas accrued directly to central governments providing a considerable boost to fiscal resources available to the ruling elites. Thus, these revenues contributed to ruling elite's domestic bargaining power, helped ameliorate redistributive pressures, and enhanced the state's coercive capacity. They allowed the ruling elite to increase public spending, particularly in capital investment (i.e., infrastructure and construction projects), subsidies to state enterprises, tax expenditures, and quasi-fiscal activities by state enterprises and, in the case of Kazakhstan and Azerbaijan, also foreign companies engaged in oil and gas extraction. These both significantly enriched the ruling elites and allowed them to satisfy influential groups, thus maintaining weak constraints on the executive and contributing to low political participation. Large windfalls also allowed increasing public sector employment – more so in Turkmenistan and Azerbaijan than in Kazakhstan, enhancing the state's ability to act as a 'rent seizer' - lucrative government jobs increased rent-seeking and competition for public office, thereby increasing the ruling elite's bargaining power. Finally, the windfalls allowed the three governments to boost their coercive capacity, which acted as a deterrent to expressing dissent.

Figure 6-11. Oil and Gas Rents Per Capita, 1997-2006

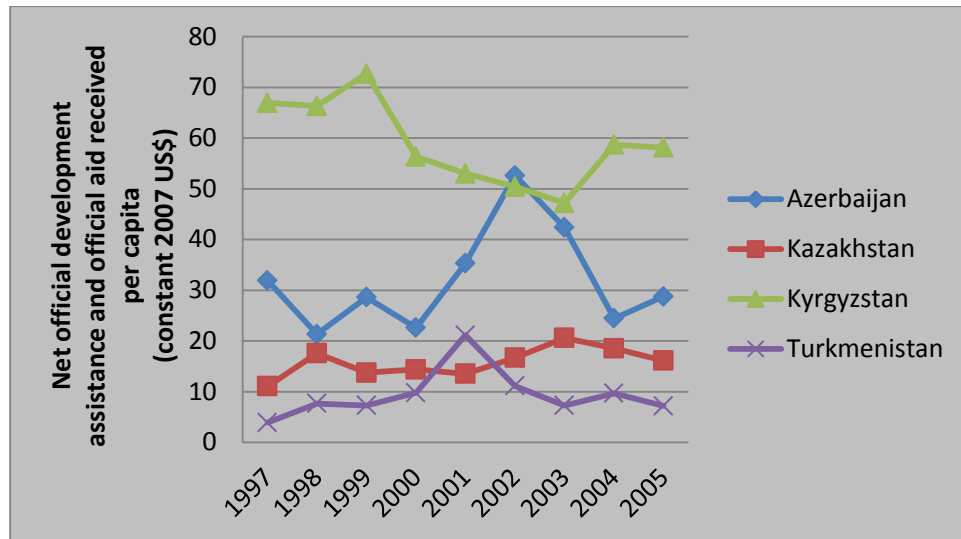


Source: Author's calculations based on data from Ross (2009) and World Bank (2009)

At the same time, as in the previous period, the size of oil and gas revenues may not provide sufficient explanation of causal mechanisms and regime outcomes. First, across the three oil-rich countries cases the state coffers also received varying amounts of other non-tax revenues, whose effect on taxation, spending, public appointments, and coercion can hardly be empirically separated from that of oil and gas rents. While Azerbaijan and Kyrgyzstan's rents from other natural resources remained low and Turkmenistan's cotton rents slightly decreased, Kazakhstan's rents from non-oil minerals increased over time. The regime outcomes suggest that resource diversity might have a marginal effect once oil and gas rents are 'sufficiently' high. Second, Kyrgyzstan received significantly larger foreign aid than the three other countries (Figure 6-12). This lends some credence to the view that foreign aid can also have an autocratizing effect on political regime (Morrison 2007). At the same time, the fact that Akayev's regime in Kyrgyzstan did fall underlines the difference between the impact of oil and gas revenues and that of foreign aid.

Finally, oil and gas extraction helped oil-rich countries to secure tacit support for their regimes from the United States, Great Britain, and other European states, which, due to large investments into oil and gas sectors, were increasingly interested in political stability in these countries. This last factor points at the strategic properties of oil and gas – in order to assess the effect of oil and gas on political regime, we should not circumscribe our analysis to the size of oil and gas revenues alone.

Figure 6-12. Foreign Aid Per Capita, 1997-2005



Source: Author's calculations based on data from World Bank (2009)

6.5.2 Spread of Alternative Elites

Different regime strategies were also affected by the presence and spread of alternative political elites, which increased the costs of patronage and coercion. In Turkmenistan, the virtual absence of previous political and economic liberalization allowed the ruling elite to avoid the emergence of any viable opposition either within or outside of the government.

In Azerbaijan, alternative elites could be divided into two broad groups. The first consisted of diverse elites that emerged as a result of political turbulence, regime transition, and elite change in early 1990s. These groups formed a formal opposition and, despite being weakened throughout the second half of 1990s and early 2000s, still acted as a small constraint on the ruling elite's power, especially during the uncertain and sensitive period before the political succession of Heydar Aliyev by his son. However, the second group was perhaps more troublesome for the ruling elite because it consisted of influential elite members who reportedly tacitly challenged the legitimacy of the newly elected Ilham Aliyev, whose power was yet to be consolidated. Both groups – formal opposition and regime insiders – were activated in the period between the presidential election in 2003 and parliamentary election in 2005.

In Kazakhstan, the spread of alternative elites was also fuelled by the expectation of succession struggle. In addition, previous privatization and economic liberalization resulted

in the formation of several semi-autonomous influence groups, each having representatives both in government bodies and business and each vying to influence President Nazarbayev and struggling for power in what was perceived as post-Nazarbayev Kazakhshtan. Nazarbayev's relatively technocratic bent allowed some of these people to be nurtured within the government and amass economic wealth and political influence. For some time their presence to a certain degree 'softened' the nature of the political regime. However, the ruling elite was later able to deal with these dissenters thanks largely to two factors: increased rents from oil, gas and other non-oil minerals that accrued directly to the tightly controlled government, and the weakening of the previous two constraints – large Russian minority and to a certain extent recalcitrant oil-producing regions' leaders and oil barons.

Finally, in Kyrgyzstan the spread of alternative elites by 2005 was the highest of all four countries. This was due to several factors, particularly high rotation of cadres in the government, which soon created scores of former high-level officials disgruntled at Akayev administration, and to a certain degree liberal policies, which allowed the formation of semi-autonomous business elites.

6.5.3 External Legitimation

The events that led to the smooth succession of political power in Azerbaijan and the downfall of Akayev regime in Kyrgyzstan highlight the role played by external legitimation of incumbent's power. External legitimation in each case was certainly not as significant as domestic factors analyzed above. Moreover, external legitimation can be both exogenous and endogenous - i.e. while it can be due to a country's possession of oil and gas resources, it can also stem from other political or economic factors. Therefore, it can be considered a causal mechanism if its level depends on a country's oil resources or it can be seen as context factor if its level is a function of other, non-oil factors, such as political, economic or military issues between countries.

In Azerbaijan's case, the apparent lack of outside, particularly Western, support for a more democratic handling of presidential elections in 2003 and parliamentary elections in 2005 and a hasty endorsement of the outcomes of reportedly falsified elections by the US and Russia positively affected both the smoothness of political succession and regime rejuvenation, and the maintenance of similarly autocratic practices. The likely reasons for such attitude from the Bush administration were its likely desire to avoid political instability that could harm US energy interests (author's interviews with a US State Department official, US oil company executive; (Guliyev 2005; Valiyev 2005; Alieva 2006).

In Kyrgyzstan, although Western assistance to the burgeoning civil society may not have been as critical in the “Tulip Revolution” (Radnitz 2006; Juraev 2008; Lewis 2008), Russia’s leadership’s tacit readiness to see Akayev succeeded (ICG 2004) and its silent detachment during the turmoil (Lewis 2008; ICG 2005) was probably one of the contributing factors to the regime breakdown.

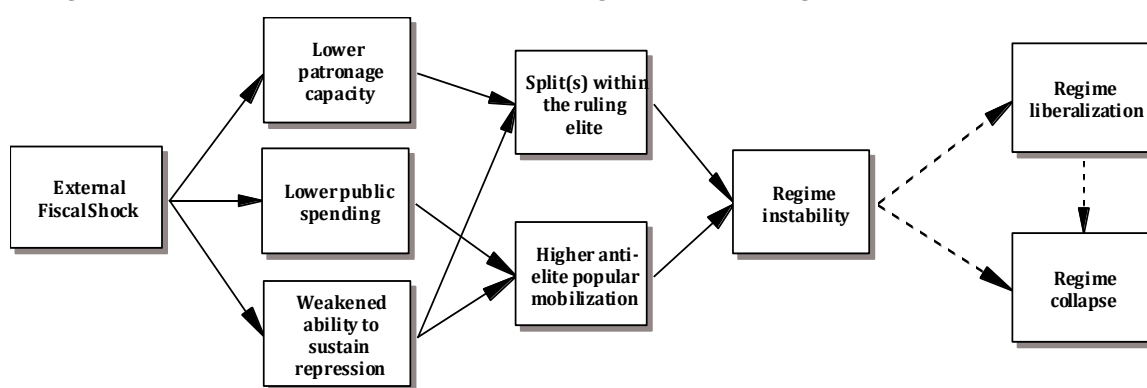
In addition, the leaders of both Kazakhstan and Turkmenistan were at different points received both at the White House and Downing Street (Lubin 1999; Penketh 2007) despite numerous reports from various sources, including the US Department of State, on poor human rights conditions in these countries. This indicated a tacit US and UK acceptance of the autocratic practices in both countries. As for the role of Russia, the leaders of all three oil-rich countries had by early 2000s streamlined their relations with Moscow as well as weakened their political, economic and military dependence on Russia (Pomfret 2005; Kalabugin 2005; Ahmadov 2005; Petersen and Ziyadov 2007).

7 Facing Fiscal Crises

7.1 Introduction

External fiscal shocks are believed to entail instability, regime liberalization or even regime breakdown in oil-rich autocracies (Karl 1997; Beblawi and Luciani 1987) as well as in autocracies in general (Collier 1979; Linz and Stepan 1996; Haggard and Kaufman 1995; Geddes 1999; van de Walle 2001). The logic behind such expectation seems plausible. Governments in oil-rich autocracies receive considerable amounts of externally derived rents, which allow them to fuel their patronage networks, finance large public spending and maintain a robust security apparatus (Anderson 1987; Beblawi and Luciani 1987; Karl 1997; Ross 2001; Jensen and Wantchekon 2004). As a result, the incumbents are able to resist pressures for democratization. Unless there is an exogenous fiscal shock, it is argued, such regimes are not likely to break down. "Political shocks" are unlikely, given the tacit or explicit endorsement of oil-rich incumbents by influential regional and global actors (Bellin 2004; Bayulgen 2005). Once an external fiscal shock takes place, however, it is expected to cause critical seizures in the domestic distributive system, entailing splits within the ruling elites and opening space for anti-incumbent challenges (Karl 1997; Beblawi and Luciani 1987). Figure 1 provides a stylized graphical representation of this argument.

Figure 7-1. External Fiscal Shocks and Regime Instability in Oil-Rich Autocracies



Source: Author's depiction of the arguments in Beblawi and Luciani 1987 and Karl 1997.

The period from 2008 to 2010 should have seen at least an onset of such crisis for the ruling elites in Azerbaijan, Kazakhstan and Turkmenistan as they faced a 'double challenge' - the repercussions of the global financial crisis and a related slump in international prices for oil and gas. Yet, the political regimes in these countries effectively withstood the crisis without undergoing any significant change, while an increasingly autocratic regime in an

otherwise similar but relatively poor Kyrgyzstan broke down. This corroborates the previous findings by Smith (2004) that oil-rich authoritarian regimes are durable in the face of crises and by Dunning (2005) who showed that in resource-dependent states political stability can coexist with financial and economic volatility for relatively long periods of time. The causes underlying this stability, however, remain poorly understood.

This chapter seeks to address this puzzle by answering a set of related questions. First and foremost, why did the 2007-2010 global financial crisis fail to engender regime instability in the three oil-rich countries of Central Asia and the Caucasus? Second, which policies were instrumental in helping the ruling elites in these countries traverse through the crisis without being destabilized? Third, were these policies similar or different? Finally, why, despite many structural and institutional similarities in their environments, did the ruling elites adopt dissimilar policies?

In answering these questions, I re-employ the framework provided by Ross (2001) and trace and compare changes in the three causal mechanisms - taxation, spending and repression - in the three oil-rich countries while contrasting them with those in Kyrgyzstan. In addition, I examine changes in two other critical causal mechanisms, mostly undertheorized or neglected in the *rentier state theory*: monetary policy and public office regulations. I then probe potential effects on regime survival strategies of a number of domestic structural and institutional variables that differentiate the three oil-rich countries apart from their varying levels of oil abundance.⁵⁷ These factors include the levels of resource dependence, prior development of non-resource private sector, leaders' time horizons, involvement in a militarized conflict, geography of resource production, and ethno-linguistic fractionalization.

I find that oil-rich autocracies can be not only as stable in the face of exogenous fiscal shocks as autocracies not endowed with oil and gas resources, but also more stable. Such crises, while perhaps necessary, are not sufficient conditions for an oil-rich autocratic regime to break down. In the cases considered here, the persistence of autocratic regimes amid the tough external environment owed to (a) their abundant reserves that were at least partly due to their adoption of saving and stabilization institutions during the boom period, (b) unwavering repressive capacity, and (c) economic and political adjustments that were tailored to their specific structural and institutional environments. Resource dependence

⁵⁷ Although international factors may well be among key factors responsible for the survival of oil-rich autocratic regimes, this chapter focuses on domestic factors.

levels, prior development of non-resource private sector, and leaders' time horizons stand out as the key factors that most affected the ruling elites' survival strategies during the crises.

The chapter proceeds as follows. The next section offers a survey of the literature on the impact of exogenous fiscal crises on autocratic stability in oil-rich countries. Second, I summarize the effects of the global financial turmoil of 2007-2010 on the economies of Azerbaijan, Kazakhstan, Turkmenistan, and Kyrgyzstan. Third, I offer case studies that detail the ruling elites' policy responses to the crisis. Next, I compare these policy responses and identify key structural and institutional factors that likely motivated different survival strategies. I then conclude with a brief summary.

7.2 Do oil-rich autocracies survive fiscal crises?

Extending the logic of the rentier state argument, Beblawi and Luciani (1987) and Karl (1997) argue that external fiscal shocks have a destabilizing effect on oil-rich autocratic regimes as they erode the dominant source of patronage and pave the way for intra-elite struggles or mass protest that are likely to lead to political liberalization, regime breakdown or even regime change. However, Smith (2004) finds weak support for this argument and instead maintains that oil-rich authoritarian regimes are more stable in the face of crises than other nondemocratic regimes. Dunning (2005) also argues that in resource-reliant countries political stability can coexist with economic volatility for long periods. Although during fiscal crises of 1980s their patronage rents significantly decreased, relatively few oil-rich autocracies broke down. Repression might be one of the responsible factors (Bellin 1994), yet Smith (2004) argues it offers only a limited explanation since a decrease in oil windfalls is likely to entail also the regime's capacity to coerce.

Another plausible explanation is that oil revenues flow into established power networks that precede the development of oil resources. Such networks are likely to be less dependent on oil rents and, therefore, less vulnerable in the face of oil busts than coalitions that emerge *as a result* of oil-induced rent-seeking. The potential role of such networks has been suggested by a number of scholars (e.g., Chaudhry 1997; Lowi 2004; Smith 2007) but remains poorly theorized and tested in cross-national settings.

Comparing Indonesia and Iran, Smith (2007) explains the variation in regime durability during crises as a function of the timing of oil production. Where oil production started with strong societal opposition and low external rents, he suggests, the autocratic regime ended up stronger (Indonesia) than in the countries where it started with little opposition

and easily accessible rents (Iran). He suggests that these are the causes of the former being able to withstand pressures induced by international price shocks and to survive crises of late 1970s and 1980s, while the latter broke down. However, arguing that the coalitions forged between the ruling elites and other important groups of actors are responsible for authoritarian survival, Smith (2007) fails to explain why these coalitions should be robust in the face of external crisis; in other words, why such elite coalitions are or should be cohesive. Furthermore, factors other than broad-based coalitions, e.g. geopolitical differences, could also have added up to the differences in regime outcomes.

Dunning (2005) develops a formal model that generates three distinct equilibrium paths for resource-dependent states: political stability co-existing with flourishing and possibly diversified economy; economic underdevelopment and fiscal volatility co-existing with political stability; and economic development and diversification with a certain risk of political instability. The model's equilibrium paths are illustrated by case studies of post-independence Botswana, Mobutu's Zaire, and Suharto's Indonesia, respectively. While Botswana's and Indonesia's cases are anomalous, Mobutu's Zaire is representative of many resource-dependent countries – while fiscally and economically volatile, they are stable politically (Smith 2004; Dunning 2005).

Dunning (2005) provides three important insights. First, fiscally and economically volatile resource-rich states can nevertheless be politically stable. Second, promoting resource dependence itself can be a tool to impede the emergence of potential challengers. Third, elite incentives (to diversify the economy) are shaped by specific political and economic landscapes in each case. He argues that in the cases of post-independence Botswana, Mobutu's Zaire and Suharto's Indonesia three explanatory variables influenced elites' incentives and shaped outcomes: international market volatility for the country's key resource, societal opposition to elites and prior development of non-resource private sector.

However, Dunning's (2005) cases, as he admits, do not constitute a test of his model's predictions, but rather help to illustrate them. In addition, the three cases represent the countries, whose exports are concentrated on different resources – diamonds, copper, and oil. This might be a problem for the analysis and for valid inferences since different resources might have different political and economic effects (for a comparison of oil and minerals, see Ross 2001; but see also Morrison 2007). Such sample selection can pose a risk for correctly specifying explanatory variables. In contrast, the sample of cases examined in this chapter allows minimizing such risks as it comprises countries most similar historically,

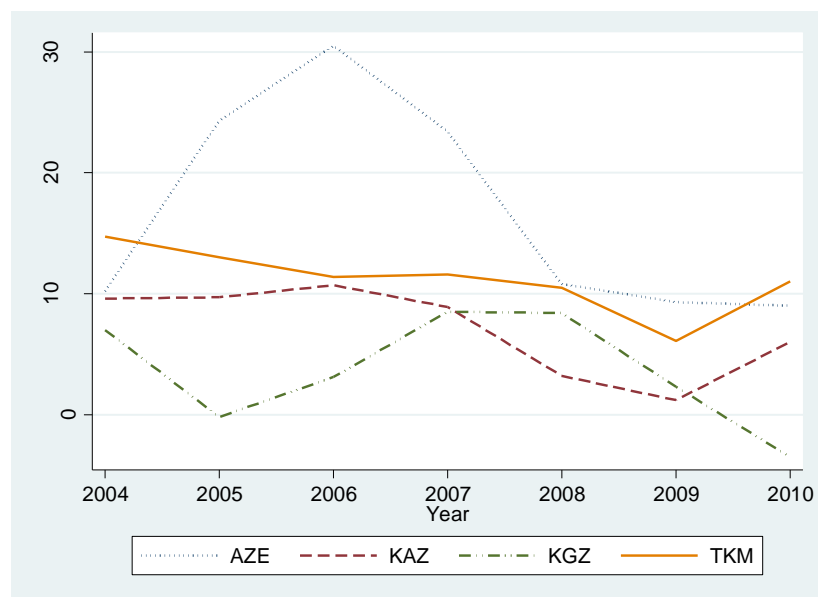
culturally, and institutionally who concentrate on producing the same primary commodities and are considered during the same historical period.

7.3 The global financial crisis 2007 and Central Eurasia

Despite their relatively low integration into the global economy, the countries in the former Soviet south were not immune to the impact of the global financial crisis that erupted in 2007. Overall, the crisis hit regional energy exporters substantially less than it did the energy importers, including Kyrgyzstan (IMF 2009). This was mainly because the energy exporters' abundant savings amassed during the previous boom years had a mitigating effect on their economies (IMF 2009a, 2009b, 2009c).

However, energy exporters also faced a number of challenges and, despite their structural and institutional similarities, differed in the extent and form the global turmoil affected their economies. Turkmenistan was hit much less than others due to its weak integration into global financial markets, while Kazakhstan – for the opposite reason of being better integrated - experienced the largest banking crisis in the region. In addition, in the case of Azerbaijan, Kazakhstan and Turkmenistan, the economic meltdown was transmitted into these countries' economies and public finances through an additional mechanism - a steep decline in international price for oil (IMF 2009a, 2009c; EIU 2009b, 2010d, 2009a).

Figure 7-2. Changes in GDP growth, 2004-2010



Source: Data from WDI

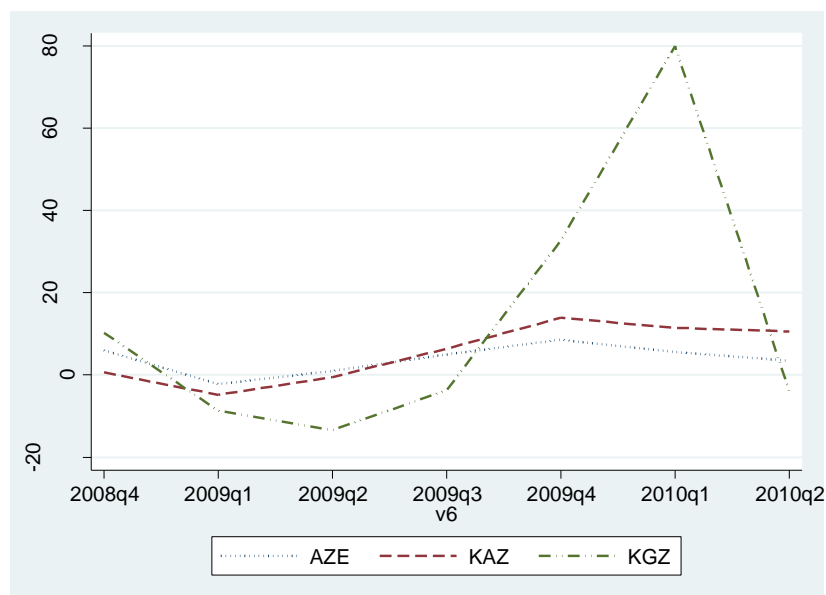
In Azerbaijan, Kazakhstan and Turkmenistan, economies started to contract in 2008 in comparison with previous years (Figure 2). In Azerbaijan, real GDP growth in 2008 was 10.8 percent, down from 34.5 percent in 2006 and 25 percent in 2007 (State Statistics Committee 2008; IMF 2010). The 9.3 percent growth in 2009 was the highest in Eastern Europe, but slowest in the country in all years since 1999 (EIU 2010a: 7).

In Kazakhstan, where, despite similar increase in oil and gas production, government expenditures had been more frugal, real GDP grew by 3.3 percent in 2008 and even more modest 1.2 percent in 2009. This was against the background of 9 percent growth in 2007 and 10.7 percent in 2006 (State Statistics Agency 2010; WDI 2010; EIU 2010b). A leading local think tank estimates that this was the longest GDP recession in Kazakhstan since 1995 even by alternative measures (RAKURS Center 2009).

While the officially reported figure for Turkmenistan is 6.1 percent in 2009, its actual magnitude is likely to be much smaller due to a shutdown of gas exports to Russia during the same year. Observers estimate that Turkmen economy contracted by 6 percent in 2009, down from a growth of 3 percent in 2008, and 6 percent in both 2007 and 2006 (EIU 2010d).

The Kyrgyz Republic economy slowed in 2009 after two years of growth. Real GDP growth was 8.5 percent in 2007, 8.4 percent in 2008 and only 2.3 percent in 2009 (National Statistics Committee 2009; EIU 2010c).

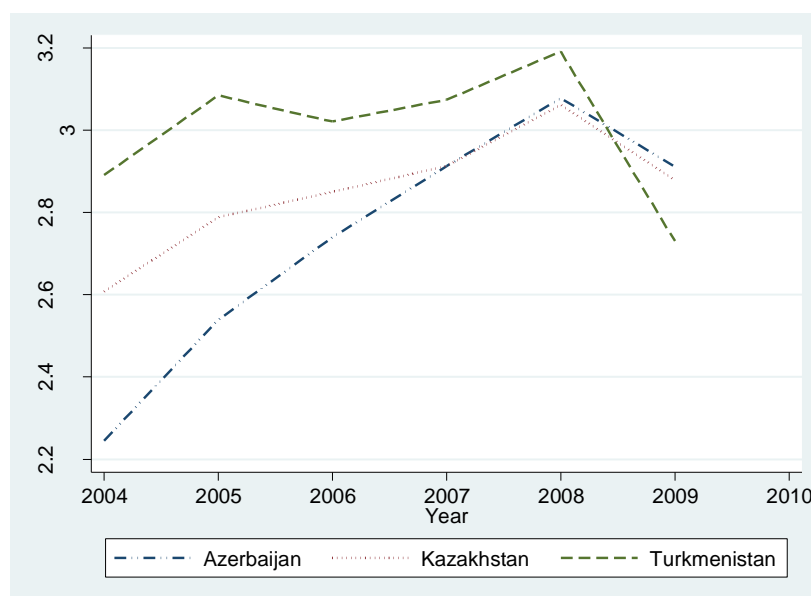
Figure 7-3. Changes in Industrial Production, 2008-2010



Source: Data from the Economist Intelligence Unit.

Three primary reasons for substantial economic slowdown were the fall in fiscal and export revenues (Figure 4), substantial liquidity constraints in the banking sector and sharp drop in capital inflows. In the case of Kyrgyzstan and Azerbaijan, the drop in capital included the slump in remittances. In Azerbaijan, total exports, of which about 95 percent was oil-related, dropped by more than 30 percent during 2009 (IMF 2010). Kazakhstan's total exports, of which oil and gas accounted for 52 percent in 2009, shrank by 40 percent (IMF 2009c). Turkmenistan's gas exports - the key source of fiscal revenues - are also estimated to have decreased considerably in 2009 due to the dispute with Russia (EIU 2010d). The demand for Kyrgyz Republic exports also declined by about 15 percent during the same year (IMF 2009b).

Figure 7-4. The Rise and Drop of Oil and Gas Revenues, 2004-2009



Source: Data from BP 2010 and WDI.

In the oil-exporters, non-oil sectors also experienced hardships, resulting in slowing of non-oil GDP growth and further expansion of non-oil fiscal deficits. Although non-oil fiscal revenues in Azerbaijan largely remained at their 2008 level, they were 17 percent lower in 2009 than budgeted. With declining output in construction and non-oil manufacturing, non-oil GDP growth dropped from 16 percent in 2008 to 3 percent in 2009 (State Statistics Committee 2010; IMF AZ 2010). Non-oil exports in Kazakhstan contracted by 38 percent (IMF 2009c). In the oil-importing Kyrgyz Republic, despite moderate economic growth owing to higher than usual yields in agriculture and capital investment in construction

projects funded by foreign donors, industrial output in 2009 fell by 6.4 percent, manufacturing output by 7.8 percent and output in the energy sector by 1.3 percent (EIU 2010c). These developments triggered increasingly large layoffs and unemployment in the three countries as many enterprises were forced to put thousands of employees on unpaid leave (IMF 2009).

The four countries faced varying degrees of difficulties in their liquidity constraints. As Turkmenistan's economy is weakly integrated into global financial markets, its small and state-dominated banking sector was among the least affected by the liquidity crisis in the region. In Azerbaijan, the inability of several banks and state-owned enterprises to extend their foreign liabilities led to an abrupt drop in credit growth (IMF 2010). Officials in the Central Bank of Azerbaijan claim that an unusually high demand for US dollars and subsequent dollarization was due to rising expectations of exchange rate depreciation (interview with Azer Alasgarov). Banks in the Kyrgyz Republic adopted cautious lending policies, which slowed credit growth (EIU 2010c). Among the four countries only Kazakhstan experienced a full-scale banking crisis. There several major and a number of mid-size banks were on the verge of bankruptcy (Stempel 2010; IMF 2009).

The third transmission mechanism for the global crisis into Central Eurasian economies was a drop in investment inflows and remittances (IMF 2009; Potapov and Markova 2010). Although the global turmoil heightened investor risk aversion towards emerging markets in general, the four Central Eurasian countries experienced different changes in the levels of capital inflows and outflows. In Azerbaijan, foreign capital inflows fell by 39 percent and FDI by 25 percent in 2009 (Central Bank of Azerbaijan 2009; EIU Azerbaijan Report 2009), further increasing the role of oil revenues - estimated at around 80 percent in 2009-2010 - as a source of investment spending (interview with a high-level official in the Chamber of Accounting). In contrast, despite the fall of 11 percent in 2008 (EIU Kazakhstan Report 2010: 16), by the end of 2009 FDI in Kazakhstan rose to US\$9.5bn, mainly to the country's oil and gas sector (EIU Kazakhstan Report 2010: 9). The Kyrgyz Republic and to a lesser extent Azerbaijan also faced sizable drops in remittances, mainly due to the economic downturn in Russia and, in the case of Kyrgyzstan, in Kazakhstan as well. The National Bank of Kyrgyz Republic (NBKR) estimates remittance inflows to have dropped by 20 percent in 2009, although the real level of remittances from Kazakhstan is likely to have been higher due to the two countries' proximity, which makes it possible to transfer money unofficially (EIU

Kyrgyz Republic Country Report 2010). The presidential aide on economic issues estimated remittances at around 20 percent of GDP (interview with Azamat Dikambayev).

7.4 Policy responses

How did the governments respond to the crisis? What policy measures did the governments implement to counter the effects of the global financial crises on their economies and ensure economic and political stability? This section offers case studies that detail policy responses to the crisis in five areas: monetary policy, government revenues, government spending, public office regulations, and coercion. Table 1 provides a summary of these responses.

7.4.1 Azerbaijan: “An island of stability”?

To support and stimulate the economy, the government of Azerbaijan lowered profit and income tax rates in 2009 and raised the VAT threshold to increase access to the simplified tax regime (Ministry of Taxes of Azerbaijan 2010; IMZ AZ 2010). Income tax for waged labor was lowered from 35 to 30 percent and for individual entrepreneurs from 35 to 20 percent. Profit tax was lowered from 22 to 20 percent. 46 modifications made to the tax code increased protection of the rights of taxpayers, improvement of tax administration and strengthening of tax control (Guliyeva, 2009). Effective from 2009, banks and insurance companies were given exemptions from tax on profits used for recapitalization (IMF AZ 2010). Overall, the average tax burden, which for the period 2003-2008 did not pass the upper threshold of 20 percent (Nasibova, 2008), was lowered further.

Overall tax collection decreased in 2009 year on year, with the exception of VAT and excise taxes. At the end of 2009, VAT increased from 4.8 to 5.6 percent of GDP and excise taxes increased from 1.2 to 1.4 percent of GDP. At the same time, profit taxes decreased from 7.1 to 3.7 percent of GDP (State Statistics Committee 2010).

However, the most significant development was the percentage of non-tax revenues - mainly from oil and gas - that were transferred to the budget. While in 2007 non-tax revenues made up 13.2 percent of the budget revenues, in 2008 this number rose to 37.5 and in 2009 to 50.3 percent, respectively (State Statistics Committee 2010). Most of these funds came from the State Oil Fund (SOFAZ). In 2010, the transfer from SOFAZ is projected to be around 82 percent of its 2010 revenues. This would constitute around 49 percent of the state budget revenues and 12 percent of GDP (SOFAZ, 2010; State Statistics Committee 2010). This underscores the budget’s growing dependence on oil and gas revenues.

Table 7-1. Policy Responses to the Global Fiscal Crisis.

	Azerbaijan	Kazakhstan	Turkmenistan	Kyrgyzstan
Monetary policy				
local currency & exchange rate	no depreciation allowed	some devaluation	no depreciation allowed	significant depreciation allowed
support to banks	2.5 % of GDP to support the largest (state) bank	4 percent of GDP to four private banks; nationalization of 2 banks	no support	little support (banks foreign)
bank regulations	some liberalization	some liberalization	some liberalization	some liberalization
Revenues				
natural resource fund transfers to state budget	increased significantly (to 12 % of GDP)	increased significantly (7 % of GDP)	no change (fiscal resources extremely fungible)	n/a
changes in key revenue sources	little change	pressure on international oil companies	little change	large foreign aid
changes in taxation	significant liberalization	some liberalization	no change	significant liberalization
tax collection	decreased	decreased	no change (remained insignificant)	decreased
Spending				
changes in expenditure levels	small increase (2.9% of GDP) followed by small decrease (2% of GDP)	small decrease (by 1.2% of GDP), followed by small increase (2% of GDP)	no significant change	significant increase (by 30% year-on-year)
capital investment	funded only ongoing projects	funded ongoing and some new projects	funded ongoing and some new projects	funded ongoing and some new projects
transfers and subsidies	some increase (over already high)	no significant change (remain moderate)	no change (remained significant)	significant increase (over high)
public sector wages	some increase	no significant change	significant increase	some increase
Public Office				
executive recruitment regulations	tightened (over highly tightened)	tightened (over highly tightened)	no change (remained extremely tightened)	tightened (over moderately tightened)
restructuring in political institutions	no change (highly centralized)	some restructuring aimed at centralization (over moderately-to-highly centralized)	no change (extremely centralized)	significant restructuring aimed at centralization (over relatively decentralized)
political reshuffles	some small reshuffles	some high-level reshuffles	some small reshuffles	significant high-level reshuffles

regulation of political participation	no significant change (remained restricted)	no significant change (remained restricted)	no significant change (remained highly restricted)	tightened significantly (over loosely regulated)
Coercion				
spending on coercion	some increase	no significant change	data not available	significant increase
key repression target categories	journalists and official opposition figures	several former high-level officials and some journalists	n/a(no opposition and no independent media operates within the country)	several former high-level officials, opposition politicians and some journalists

In response to falling revenues, the government cut non-priority spending and abstained from initiating new major capital investments in 2009 (IMF AZ, 2010). However, despite the cut in capital investment of around 5 percent of GDP in 2009, the government continued financing ongoing projects, including infrastructure projects of dubious quality and low transparency (State Statistics Committee 2010; interviews with Gubad Ibadoghlu and Azer Mehtiyev). The government also extended support amounting to US\$1.4 bn (3.2 percent of GDP) through capital injection and government-guaranteed loan to SOCAR, the national oil company, and state-owned aluminum company (IMZ AZ, 2010).

Unlike the experience of pre-crisis years when the budget recorded insignificant surpluses or deficits, in 2009 the official budget deficit rose to 0.7 percent of GDP and in 2010 to 3.1 percent of GDP. Although the public expenditures for 2010 decreased by 2 percent of GDP year on year (State Statistics Committee 2010), the total amount remains high relative to the projected revenues and economic output. To alleviate rising unemployment, social spending increased from 1.9 to 3.7 percent of GDP in 2010 (State Statistics Committee 2010), including sizeable amounts to social protection and the needs of refugees and internally displaced persons ("Azerbaijan" Newspaper, October 16, 2009). Overall, while the budget execution was 96 percent in 2009, observers estimate it to be around 85 percent in 2010 (interview with a high-level official in the Chamber of Accounting).

Overall, the crisis amplified major issues in the state budget management, the practice of extrabudgetary funds and quasi-fiscal activities. First, even though some reforms have been implemented since the dissolution of the Soviet Union, the state budget still retained the features of Soviet *Gosbyudjet* in that it operates as a mechanism of passive redistribution of available resources among budget organizations (interview with Chamber of Accounting official). Second, apart from the state budget expenditures, the state oil fund increasingly operated as an extra-budgetary fund. In 2008 and 2009, it spent around US\$700 mln (1.7 percent of GDP) and US\$500 mln (1.4 percent of GDP), respectively, largely for financing several major infrastructure projects and for projects concerning refugee and IDP problems (State Oil Fund 2010). In 2010, SOFAZ expenditures for the same projects are envisaged at around US\$600 mln (1.5 percent of GDP) (State Oil Fund 2010). Finally, the state oil company (SOCAR) continued to engage in quasi-fiscal activities, providing

considerable implicit subsidies to state-owned enterprises through low energy prices and toleration of payment arrears (interviews with Gubad Ibadoghlu, Azer Mehtiyev and anonymous government official; Brakke et al. 2009).

In order to boost credit, the Azerbaijani government restarted issuing subsidized mortgages (CBA website; EIU 2009). The Central Bank also lowered the reserve requirement on deposits from 12 to 0.5 percent and reduced the refinancing rate from 15 to 2 percent (IMF AZ 2010). Most importantly, contrary to observers' expectation that, in the face of the sharp decline in foreign-exchange inflows, the government will allow depreciation of the local currency to avoid precipitous erosion of reserves, the authorities made foreign exchange sales of more than US\$1 billion (16 percent of reserves) to keep the Azerbaijani manat stable (CBA 2010; EIU 2009; interview with high-level Chamber of Accounting official). Another US\$1.1 billion was provided in government-guaranteed credit to the state-owned International Bank of Azerbaijan for subsequent lending to the state oil and aluminum enterprises under the new "social and economic projects" clause introduced in the law on the Central Bank specifically for this purpose (IMF AZ 2010).

Although spending large amounts of reserves for maintaining the currency resulted in reduction of dollarization and prevention of negative impact on banks (IMF AZ 2010), critics maintain that the motivation behind this sizeable injection into the economy, its form and its effect shows that the governments supported selected large enterprises close to the ruling elite, rather than medium and small enterprises, and households (interviews with Eyyub Huseynov, Gubad Ibadoghlu, and Azer Mehtiyev).

On the political front, after winning a second five-year term in October 2008, President Ilham Aliyev quickly moved to hold a nationwide referendum in March 2009 proposing a number of amendments to the constitution. The key amendment concerned the elimination of term limits for the country's president (RFE/RL 2009). The positive vote at the referendum paved the way for the incumbent president to run for office again in 2013. This was likely done to preempt the grooming of potential challengers from within the elite, rather than official opposition, which is too weak politically and financially (but see Guliyev 2009). Before the referendum, three potential options for smooth political succession were discussed: that President Aliyev will seek either to stay in office after 2013 or transfer power to his wife Mehriban Aliyeva or another trusted heir (interview with Rasim Musabekov; Freedom House 2010; RFE/RL 2008). The key amendment to the constitution suggests that the ruling elite opted for the first option.

The timing of the referendum indicates that the ruling elite, wary that the consequences of the global financial turmoil in Azerbaijan would exacerbate the then-looming succession issue by undermining the president's patronage network, decided to forestall this before the effects of the crisis grow strong enough to fuel grievances and political realignments. Although the outcome of the referendum does not ensure a smooth term in office for President Aliyev given the difficult economic environment, such a solution to the succession issue raises the costs of intra-elite repositioning and further discourages any anti-elite mobilization as it sends an unambiguous signal about regime and elite continuity.

To further boost the loyalty of supporters, the president also moved to re-appoint most top-level elite members to their positions and, most importantly, in effect removed term limits through the constitutional amendments for several key executive and judiciary offices, like the Supreme Court and Constitutional Court (AzeriReport 2009; Freedom House 2009). The 2010 budget also envisages higher compensation for public sector personnel (Aslanli 2010). The government also sought to introduce further restraints on foreign and local non-governmental organizations (NGOs) in 2009 by making several harsh amendments in the law regulating their activities. However, due to domestic and international pressure and lack of consensus within the elite, withdrew the bill (Trend News 2009).

The ruling elite also seemed to invest more in boosting its repressive capacity during the crisis. Although the actual repression levels were already high before the crisis, the government increased spending for defense, justice and law enforcement from 1.3 percent of GDP in 2008 to 1.8 of GDP in 2009. A further 1.2 percent increase in this spending category is envisaged for 2010 ("Azerbaijan" Newspaper 2009). The main targets of repression during this period were journalists and official opposition figures (Freedom House 2009, 2010; Amnesty International 2008-2010).

7.4.2 Kazakhstan: The cost of reform

Unlike Azerbaijan's government, Kazakhstan's leaders allowed the devaluation of the local currency (*Tenge*) in February 2009 (National Bank of Kazakhstan 2009; EIU 2009). While the government understood this decision's drawback in terms of worsening the position of local businesses, it was also concerned about the economy's waning attractiveness for foreign investors; so, devaluation of Tenge against the US dollar by 20 percent was a product of these two competing concerns (EIU Kazakhstan Report 2009). Grigory Marchenko, the central bank (NBK) chairman, later assured that the government is

keen and prepared to maintain the currency at that level, given large reserves totaling US\$23 in 2009 (Donskikh 2010; EIU Kazakhstan Report 2009). In addition, the NBK cut the refinancing rate four times during 2009 down to 8 percent as well as reduced reserve requirement for commercial banks (EIU 2009).

Facing the first signs of the global turmoil in Kazakhstan, in late 2008 the government supported four largest banks – BTA, Halyk, Kazkommertsbank and Alyans – by providing the total of US\$4 bn (3 percent of GDP) in return to 25-percent share in each bank. However, in early 2009, it injected another US\$1 bn to Halyk and KKB, while practically nationalizing Alyans and BTA, whose heads also faced persecution (Askarov 2010; EIU 2009). Despite the government support, BTA and Alyans subsequently defaulted (Stempel 2010).

In fiscal policy, the government increased pressure on international oil companies engaged in production-sharing agreements in Kazakhstan since 1990s. The government set to increase its share of income through higher taxes in three largest ventures as well as ensure that local companies get larger shares in these consortia's supply and service contracts. The government also intensified its pressure on the oil consortia through several allegations and inquiries related to tax evasion and violation of labor code and environmental regulations (interview with Tulegen Askarov; EIU 2009). The authorities' stance towards Western oil companies can be partly explained by the continued attractiveness of Kazakhstan's oil sector for foreign investors, especially from China. At the same time, despite the initial announcement that the tax burden on companies working in the country's natural resource sectors will be increased in 2009, the government later agreed to lower the mineral extraction tax rate on a case-by-case basis (EIU 2009).

In 2008, the government initiated a rewrite of the tax code aimed at creating a unified taxation system (Kazakhstanskaya Pravda 2008; Ministry of Taxes of Kazakhstan 2009). Definitions in the new tax code were left rather vague (interview with Courtney Fowler). In 2009, the government introduced a number of new taxes, while also lowering some key taxes, most notably the corporate profit tax. The latter, combined with lower profits overall, critically affected the inflow of money to the treasury. In general, poor tax collection remained a critical issue (interviews with Courtney Fowler and David Rees).

The availability of large amounts of reserves sustained the budget. As a highly placed government figure from Samruk-Kazyna noted, "the crisis sobered the government a little, but not enough - due to the soft cushion provided by the NRFK" (interview with

Sholpan Mukasheva). In 2009, the NRFK made a direct transfer of US\$7.4bn (7 percent of GDP) to the unified state budget (Ministry of Finance 2010). At the same time, Kazakhstan also secured two large loans for infrastructure projects, one from China in the amount of US\$10bn and another from the World Bank of more than US\$2bn (EIU Kazakhstan Report 2009).

With decreasing budget revenues of 2.3 percent of GDP year on year, the government budget expenditure also dropped from 27 percent of GDP to 25.8 percent of GDP (IMF 2010). However, the crisis accelerated the state's "return to the economy" – the trend that started in mid-2000s – as the government started implementing its two-year anti-crisis Action Plan in 2009 and a five-year industrial development and diversification plan in 2010 (Samruk-Kazyna 2009; EIU Kazakhstan Report 2009: 5).

The two plans allocated considerable funds, drawn from Samruk-Kazyna and NRFK, to various industrial and infrastructure projects chosen through reportedly arbitrary process (interview with Meruert Makhmutova; Pavlovich 2009; Yuvachev 2009). Although the exact list of recipients is difficult to establish (interview with Sergey Zlotnikov), the available data shows that it included most of the enterprises under Samruk-Kazyna, "social corporations" and several well-placed private companies (interviews with Kanat Berentayev and Meruert Makhmutova). The share of transfers to regions also increased (interview with Oraz Jandosov). As a high-level official from Samruk-Kazyna confessed, the state "should have abstained from spending too much" (interview with Sholpan Mukasheva). Finally, official figures might not reflect the real magnitude of spending and their destination. In the words of the well-known economic analyst for *Respublika* newspaper, the expense side of the budget is "fil'kina gramota" (Russian idiom meaning "a useless scrap of paper") (interview with Tulegen Askarov).

In terms of political landscape, at the onset of the crisis in 2008 and in anticipation of intra-elite frictions fueled by impending political succession issue, President Nazarbayev initiated a restructuring in the government aimed at strengthening presidential control over various state bodies and the economy. The key development was the merging of two large state funds Samruk and Kazyna into Samruk-Kazyna, which brought a large number of state-owned or state-controlled enterprises from under control of various state bodies to under direct presidential control (Samruk-Kazyna 2010; interview with Kanat Berentayev). The new giant government holding was tasked with coordinating development and investment activities of a large number of government ministries, agencies and state-

controlled enterprises (Samruk-Kazyna 2010). In centralizing power in this way, President Nazarbayev was likely motivated partly by a concern that consequences of the global crisis might further exacerbate elite infighting stirred by the succession issue, and therefore sought to re-assure his prerogative over management of these enterprises (interview with an anonymous auditor). The official rhetoric, on the contrary, emphasized political liberalization more than before the crisis (interviews with Oraz Jandosov and Sergey Zlotnikov).

In 2009, the government went through reshuffles that signaled intensified power struggle within the elite. The defense minister and the head of the state nuclear agency were sacked, with the latter being arrested. Former minister of environment faced a trial on embezzlement charges (RFE/RL 2009). At the same time, despite the previous policy of reducing public sector employment – in 2007 the government initiated a 20 percent decrease – the number of employees in the public sector remained at previous levels (interview with Janibek Khassan). In early 2010, President Nazarbayev again reorganized and reshuffled several government ministries, strengthening his control over oil and minerals sector and overall economy (Silk Road Intelligencer 2010; EIU Kazakhstan Report 2010). Finally, the administration also prepared a bill that would grant President Nazarbayev a “leader of the nation” status, which effectively means he would be the country’s de-facto leader after retirement (Lillis 2010). Overall, as many respondents noted, the crisis intensified the process of centralizing political power in presidential administration (interviews Oraz Jandosov, Rustam Kadyrzhanov, Meruert Makhmutova and Naubet Bisenov, among others).

The government restructuring and reshuffles were accompanied by persecution of several former high-level officials, specifically the head of the state nuclear agency and former minister of environment, and a number of business leaders (RFE/RL 2009; Lillis 2009). This signified a resurgence of intra-elite infighting that was likely fueled both by the effects of the crisis, which some elite members intended to exploit, and anticipation of political succession struggle (Panchenko 2010; Lillis 2009; interviews with Rustam Kadyrzhanov, Adil Nurmakov and Naubet Bissenov).

7.4.3 Turkmenistan: The benefits of isolation

Turkmenistan’s monetary policy at the beginning and during the crisis remained as unsophisticated as before (EIU 2010; RFE/RL 2009d). Weak integration into global financial system, undeveloped banking sector, a small foreign debt and massive reserves relieved the

government and the central bank from the need to make critical adjustments in monetary policy. A major development was redenomination of local currency and unification of the official and the commercial exchange rates starting from 2009, which was mostly a response to rising inflation stirred by large oil and gas windfalls (RFE/RL 2009d; IMF 2009; EIU 2010). The administration also initiated modest reforms in the financial sector, allowing banks to mobilize deposits and provide new services (IMF 2009a).

As bulk of Turkmenistan's fiscal revenues come from gas and crude oil exports (around 60 percent), the shutdown of gas exports to Russia in 2009 adversely affected the state budget, which remains as opaque and unreliable as before, in spite of modest reforms in public finance management. Due to the consequences of halt in gas exports in 2009 and generally tough economic environment, the government announced a cut of 18 percent in revenue from the 2009 budget targets in the 2010 state budget (EIU 2010). Whereas recording large budget surpluses before the crisis of up to 11.3 percent of GDP, the 2010 state budget projected a deficit of 0.7 percent of GDP (State Statistics Committee 2010; IMF 2009). In fact, the Stabilization Fund of Turkmenistan established earlier in October 2008 was created to accumulate state budget surpluses (IMF 2009a). Finally, as tax exemptions to state enterprises, which form the backbone of the country's economy, remained widespread, the tax revenue was likely to remain as insignificant as before the crisis, although a lack of data on this precludes firm conclusion (personal correspondence with anonymous development agency executive; EIU Country Profile 2008).

Government spending in 2009 was as large as in previous years thanks to vast reserves. The government continued to finance a large number of expensive construction projects. In addition, it made generous arms purchases from Russia (Kommersant 2008). At the same time, some construction projects, including upgrading of the main airport in Ashgabat, were reportedly suspended during the course of 2009. In any case, the state continued providing considerable subsidies to state enterprises and households amounting to at least a quarter of GDP (personal correspondence with anonymous development agency executive).

Whereas the 2010 state budget projected a cut of 15.4 percent in expenditure from the budget targets of 2009, President Berdymukhamedov announced that in 2010-11 the government will sponsor a set of ambitious construction and infrastructure projects with the total budget of US\$23.6bn (Eurasianet.org 2010). However, this number is dubious as it exceeds Turkmenistan's projected GDP for the same period (EIU 2010). The actual scope of

spending, however, is difficult to establish due to continued use of considerable extra-budgetary funds, which are estimated to be four times as large as the official state budget (EIU Country Profile 2008).

The administration of President Berdymukhamedov, who came to power in 2006 after the sudden death of the previous president Saparmurat Niyazov, has preserved all features of the political system created by his predecessor. The political power remained centralized in the presidency with one-party parliament serving as a rubber stamp for presidential initiatives. The president has frequently reshuffled high-level officials in an attempt to prevent them from forming power bases and to deflect the blame for policy failures away from himself. Although most of the fired officials are given posts in other government bodies, Berdymukhamedov has also managed to distance most of the Niyazov protégés from decision-making (interviews with two anonymous local NGO leaders; Ozodi 2008; Pannier 2009; EIU 2010).

In early 2010, President Berdymukhamedov proposed formation of a new political party that would compete with his Democratic Party of Turkmenistan, which is the only registered party in Turkmenistan. Far from willingness to initiate genuine liberalization, this was likely an attempt to create a 'façade democracy' that would help Turkmenistan to attract foreign investment (TurkmenInform 2010). The global financial turmoil was likely one of the contributing factors for such moves by Berdymukhamedov in that it demonstrated the risks of dependence both on single commodity and on few routes for its transportation. The new party, which is certainly to be tightly managed by the administration, may also serve to mobilize additional support for the president from interest groups that are not well-represented in the current political system (EIU 2010).

During the crisis, the authorities also increased public sector salaries and benefits, with the last rise of 11 percent in early 2010 (Turkmenistan.ru 2009). Overall, public sector employment in Turkmenistan is one of the highest in the world with only 10 percent employed in the private sector (International Labour Organization 2008; Sabonis-Helf 2004).

Turkmenistan remained one of the most repressive states in the world. It has consistently received a score of 7 (worst) in the Civil Liberties category in the Freedom House Freedom in the World and has been included in the list of nine countries judged to have the poorest human rights conditions (Freedom House 2010).

7.4.4 Kyrgyz Republic: Centralized to collapse

As a result of the difficult economic environment, in 2009 the Kyrgyz currency depreciated against the US dollar (EIU 2010; IMF 2009). In contrast with its counterparts in neighboring countries, the National Bank of Kyrgyz Republic (NBKR) mostly allowed flexible exchange rate, although it intervened to prevent sharp depreciation (NBKR 2009; IMF 2009). In addition, the law on the central bank was amended so as to increase the NBKR's statutory capital and thus boost its financial independence (IMF 2009).

In 2009, the state budget deficit was 1.5 percent of GDP. The government introduced a new tax code in January 2009, cutting the number of taxes from 16 to 8 and lowering VAT, the largest source of state budget revenues contributing about 40 percent to tax revenues and 30 percent of total revenues, from 20 percent to 12 percent (interview with Adylbek Kasymaliyev; National Statistics Committee 2010). Total tax revenues increased by a tiny 0.5 percent from 2008 to 2009 with a large upsurge of 44 percent in income tax revenues, but also a significant drop of 18 percent in VAT revenues, which constitute the largest source of state budget revenues contributing about 40 percent to tax revenues and 30 percent of total revenues (National Statistics Committee 2010; EIU 2010). In addition, according to Adylbek Kasymaliyev, deputy head of State Tax Committee, tax arrears on the part of public enterprises, particularly in the electricity sector, resulted in 40 percent loss for the budget (interview with Adylbek Kasymaliyev). The government also doubled the rent paid by the US for using the Manas airbase (EIU 2010).

At the same time, as both regime insiders and outsiders point out, the official budget is far from accurately reflecting the actual scope of money flows both in the economy and in the government (interviews with Azamat Dikambayev, Madat Tiulegenov and Shairbek Jurayev). The deputy head of the Central Agency for Development, Investment and Innovation and presidential aide on economic issues noted that the size of the shadow economy allows the official budget to cover no more than 50% of the economy (interview with Azamat Dikambayev).

Nevertheless, in 2009, despite the increase in revenues by 19.4 percent from the previous year, the government afforded a 30 percent increase in expenditures, partly due to spending pressures stemming from the fall in remittances from Kyrgyz labor migrants in Russia and Kazakhstan (National Statistics Committee 2010; EIU 2010). This was for the most part due to a considerable increase in grants as the country secured around US\$1.7bn in loan (34 percent of 2009 GDP) and US\$170mln in financial aid (3 percent of GDP) from

Russia and to the government's securing a US\$100m grant from the IMF under its Exogenous Shocks Facility (IMF 2009b; EIU 2009c).

The government increased spending on most budget items in 2009, including administration, defense & internal security, education, healthcare and social insurance by an average of 23 percent year on year. However, the bulk of the increase in government spending was in subsidies to economic sectors as the authorities allocated around 3.5 times more funds for this purpose than in the previous year (National Statistics Committee 2010; EIU 2010).

Having come to power through the Tulip Revolution in 2005 and withstood two years of post-revolutionary disarray, the former prime minister (2000-2002) Kurmanbek Bakiyev started to consolidate his power in 2007. The parliamentary elections in that year, judged to have fallen short of international standards by OSCE, ensured the majority support for Bakiyev in the legislature as his Ak Jol (True Path) party came to occupy 80 percent of seats. Most of the important posts in the executive and judiciary also came to be occupied by Bakiyev allies and family members. The North-South divide was considerably deepened by the president's policy of bringing to most of the key posts individuals from his native South, particularly Osh and Jalalabad regions (interviews with Kuban Omuraliyev, Gulnara Iskakova and Asel Saldarbayeva).

Perhaps in anticipation of the adverse impact of the global economic meltdown on the country's economy, the authorities rescheduled the presidential election to be held in 2010 to an earlier date in 2008. Re-election through the poll, which again was judged neither free, nor fair, nevertheless allowed Bakiyev to further centralize decision-making (Freedom House 2008). In October 2009, he restructured the government and brought many government bodies under direct presidential control. A new government body – Central Agency for Development, Investment and Innovation (CADII) – was established to supervise and streamline the work of ministries and agencies that deal with economy, and Maksim Bakiyev, the president's son, was appointed the CADII head (Pannier 2009).

The authorities also announced a forthcoming cut (of around 70 percent, according to Jumakadyr Akeneyev) in the bloated public sector employment with the stated goal of increasing efficiency (interviews with Sergey Masaulov and Jumakadyr Akeneyev). However, the actual implementation of this policy remained under question as both the Bakiyev administration and that of his predecessor Askar Akayev in fact increased employment in the public sector, although formally pledging to cut it (interview with Nurlan Djoldoshev).

The government also introduced the institution of *stats-secretaries* (tenured top civil servants). However, these quickly became politically dependent on appointed officials (interview with Kuban Omuraliyev).

Finally, in March 2010 the parliament approved several changes in the constitution proposed by President Bakiyev. The key amendment allowed the president to select the members of a new special council with the power to appoint an interim president if the incumbent head of state unexpectedly becomes incapable of fulfilling his responsibilities. Observers interpreted this as a sign of Bakiyev grooming his son to succeed him if required (personal communication with an anonymous NGO leader; EIU Kyrgyz Republic Country Report 2010).

President Bakiyev's grip on power was further strengthened by his adoption of more repressive practices than in the earlier post-Tulip revolution years. In terms of repressive capacity, the spending for administration, defense & internal security increased by 42.7 percent in 2008 and 20.5 percent in 2009 year on year (National Statistics Committee 2010; EIU 2010). In late 2009, former defense minister Ismayil Isakov was jailed and an independent Kyrgyz journalist Gennady Pavlyuk was murdered. Overall, critics note the increased number of murder cases of politicians during President Bakiyev's term in office and a certain degree of co-optation of criminal leaders into state bodies (interview with Gulnara Iskakova). Finally, one of the triggers of the April 2010 uprising that ousted Bakiyev from power, was the arrest of several key opposition figures and opening of fire on demonstrators in central Bishkek (RFE/RL 2010). Once the demonstrators started to attack and capture government buildings, however, the Ministry of Interior troops fled and other security services did not intervene (RFE/RL 2010). The weakness of the security forces was illustrated by the fact that the protesters managed to quickly capture and severely beat the Interior Minister Moldomusa Kongantiyev (Kommersant 2010).

Thus, having consolidated his power through parliamentary and presidential elections and restructuring of the government and having secured sizeable funds that allowed expenditure increase in 2009, President Kurmanbek Bakiyev, keen to attract FDI, started to prepare for the long-awaited privatization of the country's heavily subsidized electricity sector. As it envisaged a considerable rise in tariffs, domestic opposition to this privatization was strong, both from the general public and vested interests that benefited enormously from resale of electricity to third parties (interviews with Azamat Dikambayev, Sergey Masaulov and anonymous presidential administration official). Notwithstanding this

pressure, the administration significantly increased the tariffs for electricity from January 2010. This coincided with the cut in spending for non-priority items at the end of 2009. Both developments paved the way for an uprising in April 2010 that resulted in Bakiyev fleeing the country and a new coalition government made of former opposition members who in the past were also affiliated with the Bakiyev government (RFE/RL 2010).

7.5 Similarities and differences in causal mechanisms

7.5.1 Monetary policy

While monetary policies adopted by the governments of Azerbaijan, Kazakhstan and Kyrgyz Republic were similar with respect to lowering interest rates and reserve requirements for commercial banks, they differed in the amount of liquidity support to banks and the extent to which they allowed their respective local currencies to depreciate against the US dollar. With regard to liquidity support, the Kyrgyz authorities did not provide any significant support to the banks in Kyrgyzstan mostly because a considerable part of the banking sector in the country is occupied by Kazakh banks (National Bank of Kyrgyz Republic 2010).

As for Azerbaijan and Kazakhstan, while the latter was significantly more exposed to the crisis, the amount of liquidity support to banks and foreign exchange sales was roughly similar in percent of GDP terms. Second, while Kyrgyz authorities allowed a flexible exchange rate for their currency and Kazakhstan's government allowed a one-time depreciation of the Tenge in early 2009, authorities in Azerbaijan spent a sizeable amount of money to keep the Manat on the same level (Central Bank of Azerbaijan 2009).

What are the sources of these differences apart from the degree of exposure to the global financial turmoil? The first source of difference lies with the relationship between asset share of state-owned banks in the banking sectors and domestic credit provided to private sectors and households. Whereas the banking sectors in Turkmenistan and to a lesser degree in Azerbaijan are dominated by state-owned banks (93.7 and 42.4 percent in 2007, respectively), the asset share of state-owned banks in Kyrgyzstan was 8.7 percent and in Kazakhstan 0.2 percent during the same period (Table 1). At the same time, domestic credit to private sector and to households was at least three times more in Kazakhstan than in Azerbaijan and Kyrgyzstan.

It can be concluded then that in Kazakhstan the injection of sizeable amounts of money from the state into the banks was more a matter of supporting private sector and

households and an opportunity to take over large banks that had grown too independent. In contrast, the Azerbaijani ruling elite's sizeable liquidity support to the banking sector was mostly directed at supporting its own stakes, i.e. those of large enterprises dependent on state-owned banks (interviews with Gubad Ibadoghlu, Eyyub Huseynov and Azer Mehtiyev). Turkmenistan did not need much adjustment since its banking sector is undeveloped and weakly integrated into the global financial system, so did not incur much damage and domestic credit to extremely small private sector and to households remained meager.

Table 7-2. Pre-Crisis Financial Sector Development

	Azerbaijan	Kazakhstan	Turkmenistan	Kyrgyzstan
Asset share of state-owned banks in 2007	42.4	0.2	93.7	8.7
Asset share of foreign-owned banks in 2007	7.5	38.5	1.1	72
Domestic credit to private sector (in per cent of GDP) in 2007	15.2	58.9	1.4*	15.5
Domestic credit to households (in per cent of GDP) in 2007	5.8	17.4	0.8	3.3
Eurobond issuance (in per cent of GDP) in 2007	0.0	7.9	0.0	0.0
EBRD index of banking sector reform 2007	2.3	3.0	1.0	2.3
EBRD index of reform of non-bank financial institutions 2007	1.7	2.7	1.0	2.0

*Data from 2005 since later data is not available.

Source: EBRD SEI, 2009

The second, and related, source of difference lies with the government's calculation of who would incur most losses from depreciation of the local currency in each country. Allowing the devaluation of the local currency faces a dilemma since, on one hand, it hurts local businesses, but on the other, is needed for attracting foreign investors. Kazakhstan's private sector, although oligarchic in many sectors, is larger in relation to public sector, more diversified and more dependent on foreign investment than those of Azerbaijan and Turkmenistan (Table 2), so there the above dilemma was solved by keeping the balance and allowing a one-time depreciation of the local currency. In Azerbaijan, on the other hand, the share of FDI in the economy had fallen considerably throughout the last five years, while the stakes of local businesses, mainly oligopolies and monopolies, had risen. Allowing depreciation of Azerbaijani currency would have considerably hurt these businesses, especially import monopolies, and entail challenges for the ruling elite, which reportedly

has its own high stakes in these businesses (interviews with Gubad Ibadoghlu and Eyyub Huseynov).

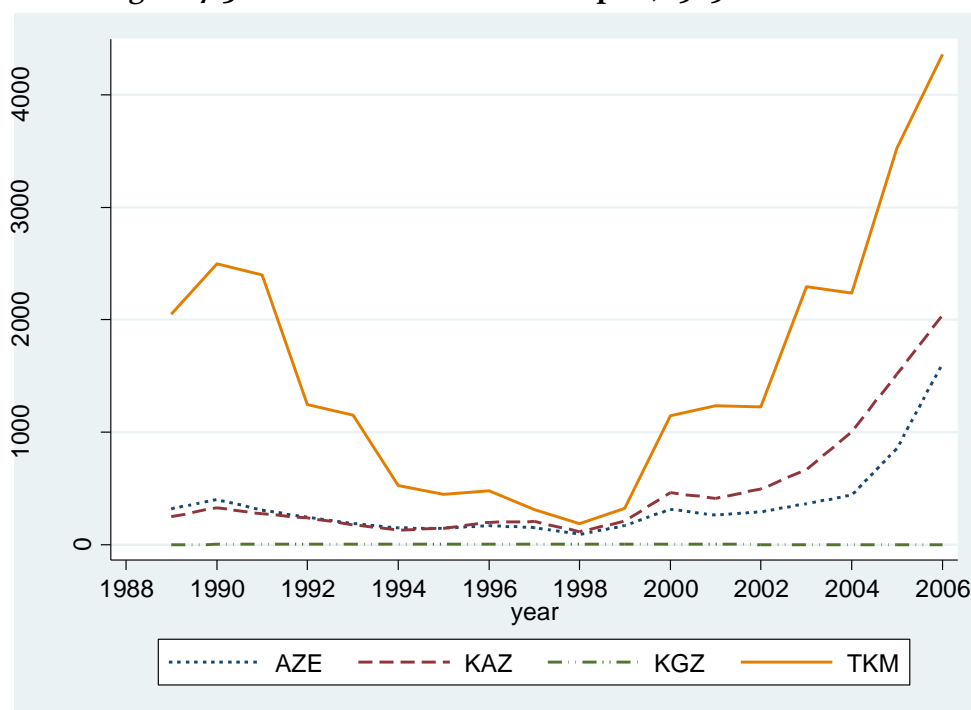
Despite the deflation of around 16 percent between 2008 and 2009 (interview with Gregory Jedrzejczak), the fall in commodity prices was prevented from being fully passed on to consumers due to the existence of monopolist importers in many sectors (interviews with Eyyub Huseynov and Azer Mehtiyev; EIU Azerbaijan Report 2009). Furthermore, a study conducted by Economic Research Center, a leading local think tank, found that the monetary policy during the last several years had a weak effect on the consumer price index in Azerbaijan (Ibadoghlu 2010).

Overall, the differences in the extent of reform of banking sector and non-banking financial institutions affected both how much a country was hit by the global financial turmoil and its response. Kazakhstan has progressed in the reform of both banking sector and non-banking financial institutions more than Azerbaijan, Turkmenistan and even resource-poor Kyrgyzstan. This was the key reason it was more exposed to the crisis than the others, whose slowness in financial sector reform made them almost immune to the first wave of the crisis that erupted in 2007. In fact, Kazakhstan's experience provided a lesson to the ruling elites in these countries, who utilized it both to prepare for the second phase of the crisis and justify the slow pace of reforms (interview with Gregory Jedrzejczak). Preventive measures in Azerbaijan, for example, started as early as 2007 due to this learning effect (interviews with Azer Alasgarov, high-level Chamber of Accounting official and Gregory Jedrzejczak).

The crisis, then, highlighted an important question: why, despite many structural and institutional similarities and heritage from the Soviet Union, these countries developed so different banking sectors and non-bank financial institutions? The likely source of differences lies with the specific combination of initial conditions that these countries faced in the immediate aftermath of the break-up of the Soviet Union. As Figure 6 shows, the amount of oil and gas rents per capita was substantially smaller in Azerbaijan and Kazakhstan than in Turkmenistan, where production per capita also recuperated sooner after a period of decline. The ruling elites in Azerbaijan and Kazakhstan therefore were forced to create relatively better institutions to attract foreign investment, whereas Saparmurat Niyazov of Turkmenistan was relieved of this pressure. However, conditions in Azerbaijan and Kazakhstan also differed in that, due to inherited instability from the effect of the armed conflict with Armenia and associated turbulence in domestic politics in early

1990s, Heydar Aliyev of Azerbaijan felt less secure than Nursultan Nazarbayev of Kazakhstan (interview with Oraz Jandosov). Despite the pressure from IFIs, he subsequently precluded efforts to allow the development of stock exchanges and other non-bank financial institutions as well as retained state dominance in the banking sector as he did not want the emergence of uncontrolled players vying for power (interview with two anonymous Chamber of Accounting officials).

Figure 7-5. Oil and Gas Rents Per Capita, 1989-2006



Source: Data from BP 2010 and WDI.

7.5.2 Revenues

Adjusting to the crisis, the governments in Azerbaijan, Kazakhstan and Kyrgyzstan lowered most taxes. Similarly, tax collection was poorer than in previous years due to widened tax exemptions and arrears. Tax exemptions in Turkmenistan remained the most widespread among the four countries examined. At the same time, the four countries differed in the amount of injections they made from their natural resource funds to the state budgets and in ways they sought alternative sources of budget revenue. First, while in Kazakhstan the amount of the transfer from NRFK to the state budget was about 7 percent of GDP in 2009, the amount of transfer from SOFAZ to Azerbaijan's state budget in the same year was 14 percent of GDP, despite the fact that Kazakhstan's economy was more exposed to the crisis than Azerbaijan's. In Turkmenistan, the sovereign wealth fund, created

with the purpose of accumulating budget surpluses, was not used, since the budget and extrabudgetary funds do not isolate resource revenues from other revenues (EIU 2010).

The first potential reason behind this difference is the level of dependence on single resource (or, in other words, the level of resource diversity). The economies of Azerbaijan and especially Turkmenistan are more resource-dependent than Kazakhstan's: while fiscal revenues from the energy sector make more than 60 percent of fiscal revenues in Azerbaijan and Turkmenistan, in Kazakhstan this number is around 40 percent (EIU reports for various years).

The second potential reason is the varying levels of development of private sectors, particularly non-resource private sectors. As the Table 2 shows, among the four countries Kyrgyzstan has made the most progress in privatizing its economy. Among the oil-rich countries, Kazakhstan has made the most progress and Turkmenistan the least. This means that private sector and the effective tax base are more diverse and larger in Kazakhstan and Kyrgyzstan than in Azerbaijan and Turkmenistan.

Table 7-3. Privatization and Enterprise Reform Progress

	Azerbaijan	Kazakhstan	Turkmenistan	Kyrgyzstan
EBRD index of small-scale privatisation	3.7	4.0	2.3	4.0
EBRD index of large-scale privatisation	2.0	3.0	1.0	3.7
EBRD index of enterprise reform	2.0	2.0	1.0	2.0

Source: EBRD 2009

Kazakhstan's less pronounced dependence on a single resource is also reflected in the pressure the government put on foreign oil companies that operate in the country under production-sharing agreements concluded in 1990s. The government announced higher taxes to be levied from these companies. It also pushed for more service contracts to be awarded to local Kazakh businesses. In addition, several investigations against oil consortia were initiated. The diversity of revenue sources and continued attractiveness of Kazakhstan's energy sector explains the better stance of Kazakhstan's authorities vis-à-vis oil companies than in Azerbaijan and Turkmenistan. Kazakhstan has attracted US\$10bn from China and another US\$2bn in a loan from the World Bank (IMF 2009c).

7.5.3 Spending

With respect to public expenditure, the key similarity was that the governments in all four countries, as almost everywhere in the world during the crisis, increased social spending. The extent of the overall adjustment in government spending was different,

however: while Azerbaijan's total spending in 2009 increased by 2.9 percent of GDP in 2009, Kazakhstan's spending fell by 1.2 percent of GDP. However, in 2010 Azerbaijan cut its public spending by 2 percent of GDP, while Kazakhstan increased its government expenditure by 2.7 percent of GDP (National Statistics Committees 2010 and Ministry of Finances 2010). This likely reflects the different timings the crisis hit these countries. Kyrgyzstan was able to increase its spending by 30 percent of GDP in 2009 thanks to generous external loans and grants, yet had to cut non-priority spending at the end of the year (National Statistics Committee 2010). Available data for Turkmenistan suggests that the total state budget remained on the similar level as in previous years (EIU Turkmenistan Report 2010).

The four governments' spending policies during the crisis differed with regard to financing capital investment. While Azerbaijan cut capital investment by 5 percent of GDP year on year and subsequently financed mainly ongoing development and infrastructure projects, Kazakhstan kept the capital investment at the same level in 2009, but subsequently increased it through two government programs – “action plan” for 2009-2010 and 5-year development plan. Despite halting some ongoing projects, Turkmenistan's government continued to finance many others and initiated other projects that will require lavish funding. Finally, Kyrgyz authorities initiated an increase of more than 3.5 times in subsidies to national economy.

The amount and direction of money poured into economies from extrabudgetary funds also differed. Turkmenistan's utilization of extrabudgetary funds remained the most significant. In Azerbaijan, apart from direct transfers to the state budget the state oil fund (SOFAZ) injected funds equivalent to an average of 1.5 percent of GDP in 2008-2010 into development and social projects, including considerable amounts directed for the needs of internally displaced persons (IDPs) that constitute around 10 percent of the population of the country. In Kazakhstan, the natural resource fund and Samruk-Kazyna also funded a large number of business projects of dubious quality (Samruk-Kazyna 2010; Yuvachev 2009; Pavlovich 2009).

These patterns of differences can be partly explained by the different time horizons of the ruling elites. However, it is important to disentangle the cluttered term “time horizon” and distinguish between its different sources. In the case of the resource-rich countries, the elites' time horizons can be construed as being affected by two factors: the ruling elite's expected continuity in office, and expected resource peak dates and depletion rates. In Azerbaijan, the peak of oil production is expected to take place between 2011 and 2014. After

this period the country will be able to export only decreasing amounts of oil and this will inevitably undermine the public finances unless the government diversifies the economy away from oil dependence before this peak date. However, the age of the country's incumbent president and the institutional setup theoretically allow his continuity in office. Although the authorities kept public spending on a high level, they displayed more frugality than in previous pre-crisis years in anticipation of possible contractions in the near future, when large reserves would be needed to provide a "soft cushion."

In contrast, Kazakhstan's peak period is expected to start no earlier than 2020 and to last longer. At the same time, in anticipation of Nazarbayev's possible retirement, the ruling elite has incentives to direct state funding to large businesses under its control and institutionalize property rights over these enterprises. This can partly explain why, despite a cut in the state budget expenditure, Samruk-Kazyna funded many development projects that were selected through arbitrary process. In Turkmenistan, both the leader's age and security in office and the peak dates for the country's oil and gas resources are far ahead, hence the government's continued generosity.

7.5.4 Public sector employment and appointments

Presidents pursued similar policies aimed at safeguarding either their continuity in office or smooth political succession to a trusted heir in the face of adverse consequences of the global turmoil that could result in elite splits and redistributive pressures. This was done by eliminating "no re-election" clauses for the incumbent president (Azerbaijan), granting special status of the "Nation's Leader" to incumbent president who previously managed to eliminate term limits (Kazakhstan) or granting the incumbent president a right to form a special committee that would in turn appoint an interim president when needed (Kyrgyzstan). In Turkmenistan, the constitution had been amended during the previous president Saparmurat Niyazov and allows the incumbent to remain in power indefinitely. During the crisis, the ruling elites also increased the salaries of public sector personnel.

At the same time, the ruling elites' policies differed with regard to turnover in the high ranks in the government, reflecting different dynamics in each case. In Azerbaijan, which expects its oil exports to peak 2011 and start declining soon thereafter – the development that can destabilize public finances and patronage networks – the majority of key high-level officials were re-appointed to their positions after the presidential election of 2008 and remained in their positions throughout the crisis. In Kazakhstan, President Nazarbayev implemented a series of restructurings in the government and two reshuffles,

both aimed at centralizing political and economic decision-making further in the presidency. In Turkmenistan, President Berdymukhamedov also practiced frequent reshuffles aimed at preventing officials from forming independent power bases.

The creation of Samruk-Kazyna in Kazakhstan and of CADII in Kyrgyzstan represented an attempt by presidents to institutionalize their prerogative over redistributive decision-making (interviews with Kanat Berentayev, Meruert Makhmutova, Medet Tiulegenov and Aida Alymbayeva). These mechanisms could also be devised to legitimize and accelerate channeling of public resources into companies that allegedly belong to presidents, in anticipation of uncertainty that might result from redistributive pressures during “bad times” (interviews with three anonymous public officials in Kazakhstan and Kyrgyz Republic and an auditor in Kazakhstan).

The changes in the public office appointments were also likely affected by the differences in time horizons of the ruling elites discussed in the previous subsection.

7.5.5 Coercion

All four countries tried to boost their repressive capacity by increasing spending on law enforcement as well as their military expenditure. The Table 3 shows three patterns. First, there was an increasing trend in law enforcement spending in three countries – Azerbaijan, Kazakhstan and Kyrgyzstan (data for Turkmenistan is not available) - with the largest spending happening in 2009. Although it would be premature to attribute this pattern solely to the effect of the global turmoil, it is safe to hypothesize that the crisis was one the key factors.

Second, the oil-rich Azerbaijan and Kazakhstan were able to allocate several times more resources to their repressive capacity than Kyrgyzstan. This tends to confirm the resource curse literature’s finding that oil-rich countries are better at warding off dissent through boosting more effective security apparatus (Skocpol 1982; Ross 2001; Bellin 2004). Third, there is a variation among the oil-rich countries in how much they allocated to their repressive capacities, with Kazakhstan being able or in need of spending more, per capita, than Azerbaijan. Azerbaijan’s military expenditure per capita, though, is more than Kazakhstan’s, reflecting Azerbaijan’s involvement in an armed conflict, which is currently frozen. However, military spending, as calculated by SIPRI 2010, includes spending on paramilitary groups as well and the latter can be and have been used for clamping down domestic challenges (RFE/RL 2003, 2005).

Table 7-4. Repressive Capacity Changes, 2006-2009

Country	Year	Law Enforcement Spending as % of GDP	Law Enforcement Spending per Capita (in US\$)	Military Expenditure per Capita (US\$)
Azerbaijan	2006	1.5%	35.9	131.1
	2008	1.4%	76.8	188.4
	2009	1.8%	90.8	161.2
Kazakhstan	2006	1.8%	88.5	70.5
	2008	1.7%	139.8	98.3
	2009	2.0%	132.6	97.4
Kyrgyz Republic	2005	-	-	24.2
	2006	1.5%	8.2	26.0
	2008	2.3%	17.7	35.1
	2009	2.1%	16.6	n.a.

Source: Author's calculations based on the data from national statistical agencies, WB's World Development Indicators 2009 and SIPRI 2009. Data for Turkmenistan is not available.

Repression levels remained as high as before and persecution of various regime opponents continued. At the same time, a closer look at the target groups of repression during the crisis might reveal the differences in underlying motivations and dynamics in each country. While in Azerbaijan and Kyrgyzstan persecution's main targets in 2008 and 2009 were journalists and opposition figures, in Kazakhstan these were business leaders and former government officials. This likely reflected a greater degree of ruling elite cohesion in the first two countries, while in the case of Kazakhstan signified a looming elite infighting in anticipation of President Nazarbayev's retirement from 'active presidency'. However, while in Azerbaijan the elite cohesion was likely fostered and maintained by abundant reserves and a related boost in repressive capacity, Kyrgyzstan's pre-April 2010 regime lacked both of these factors.

7.6 Conclusion

Notwithstanding different levels of exposure to the global financial crisis of 2007-2010, all three oil-rich autocratic regimes in Central Asia and the Caucasus survived the crisis, while the increasingly autocratic regime in the relatively poor Kyrgyzstan broke down and was replaced by a coalition government comprised of former opposition leaders. Why did the 2007-2010 global financial crisis fail to engender regime instability in these oil-rich countries?

First, as the discussion above shows, these countries' abundant reserves partly neutralized the external fiscal shock by allowing continued funding of patronage, public

spending, and repressive apparatus, and thus precluded splits in the ruling elite and anti-elite popular mobilization. The presence of abundant reserves challenges some earlier studies (Beblawi and Luciani 1987; Karl 1997), which, based on a handful of cases, assumed that resource-rich countries' overspending during their boom periods leaves them with little means to survive during bust periods. This may be partially correct, historically. As this chapter showed, unlike their predecessors in previous decades, the ruling elites in at least Azerbaijan and Kazakhstan have learned to save during boom periods. In other words, saving and stabilization institutions adopted during the boom period of 2001-2006 were instrumental in providing safe cushions during the bust period; institutions built with the goal of economic efficiency in mind also contributed to political survival. Interviews with the elite members in these countries attest to this "institutional learning."

Such learning came from different sources. The governments learned from the experience of oil-producing nations in 1980s. However, they apparently also derived lessons from the Asian financial crisis in 1997, including their own exposure to it – this can explain why executives in Azerbaijan and Kazakhstan pushed to establish oil funds following the crisis. Finally, the elites in less financially-globalized Azerbaijan also keenly observed the experience of Kazakhstan, which was exposed earlier because of its more extensive links with the global financial system.

Second, contrary to the argument advanced by Smith (2004) and Ross (2009) who argue that repression does not explain the resilience of oil-rich autocracies, including amid crises, the case studies offered in this chapter suggest the opposite, lending more credence to arguments by Bellin (2004) and Ross (2001). However, a more nuanced analysis would point to the need to distinguish between actual repression levels and repressive capacity – while oil-rich autocracies might not differ from non-rich autocracies in actual repression, as Ross (2009) suggests, they are likely to differ in repressive capacity. Both or either of these factors can play a role in discouraging elite fragmentation or popular anti-elite mobilization.

In addition, the findings of the chapter also fail to find support to the hypothesis by Smith (2007) who argued that where oil production starts with strong societal opposition and low external rents, the autocratic regime ends up stronger than in countries where it started with little opposition and easily accessible rents. While the three countries started

with varying degrees of opposition and external rents in the post-Soviet period, all three similarly survived the global fiscal crisis.⁵⁸

Third, the persistence of autocratic regimes in these countries amid the tough external environment owed also to adjustments that simultaneously allowed liberalization in economic sectors while tightening the ruling elite's political grip. The elites made several adjustments in their monetary policies, fiscal policies, public office regulations, and coercion that were not uniform across the cases, but rather reflected different combinations of several structural and institutional conditions in each case. While some of these changes were immediate "fire-fighting" responses buttressed by large reserves, others reflected path-dependent consequences of previous policies – part of which were adopted from the experience of similar countries and adjusted to a specific case – that significantly weakened potential sources of dissent.

First, the leaders' time horizons – shaped by not only their expected continuity in office, but also the expected resource peak dates and depletion rates – affected the direction and extent of public spending, public office regulations, the form and targets of repression, and investment in repressive capacity. Second, the findings also support the argument by Dunning (2005) that resource *dependence* can be as important as the resource wealth. In the case of oil-rich autocracies in the former Soviet south, resource dependence was a significant factor underpinning the elites' institutional choice decisions as well as their monetary and fiscal policies. Third, and related, prior development of non-resource private sector, and especially the development of banking sector and non-banking financial institutions, affected the elites' monetary policy decisions and taxation policies.

⁵⁸ Admittedly, such equifinality might be deceptive and disguise the different dynamics in each case that hold a potential of producing different equilibrium paths and different regime outcomes in the long run due to slow endogenous institutional changes (Greif and Laitin 2004).

8 Conclusion

This study sheds new light on one of the most critical problems that affect oil-rich developing countries: the autocratic nature of their political regimes. Its findings re-affirm the political resource curse thesis - oil does help ruling elites in autocratic states entrench and augment their autocratic rule and might also be accountable for eroding democracy in other oil-rich developing countries. At the same time, it also shows that this effect is not uniform across time and space, and the likely reasons for such variation.

The meta-analysis confirms that there is a robust negative, although small, association between oil and democracy across nations in mostly post-World War II world. This supports findings of both the *rentier-state* theorists (e.g., Anderson 1987; Beblawi and Luciani 1987; Karl 1997) and the scholars who have put their arguments to large-N quantitative tests and arrived at the same conclusion (e.g., Ross 2009; Ross 2001; Jensen and Wantchekon 2004; Ulfelder 2007; Aslaksen 2010).

One of the most consistent findings of meta-regression analysis (MRA) is that the regional variation in oil-regime effects pointed out by several scholars (Ross 2001; Herb 2005; Dunning 2008; Ross 2009; Haber and Menaldo 2011) is valid if we pull together and integrate all publicly available quantitative studies on the topic. The MRA lends credence to the “Latin American exceptionalism” propounded by Dunning (2008) – that in Latin America oil actually helped sustain democracy for several decades. Inclusion of the Middle East and North Africa variable in the sample, however, has a clearly non-significant impact on effect size. The same is true for other world regions. This implies that the political resource curse is not limited to the Middle East and North Africa (MENA). In advanced industrialized democracies oil may not undermine democracy since in this group of countries both oil wealth and oil dependence are low. But the above result may well characterize former Soviet Union, East Asia, and other regions beyond the MENA throughout the post-WWII period.

Influential studies of democracy suggest that previous regime, income, and Muslim population are among the most robust determinants of regime type (e.g., Huntington 1991; Barro 1999; Przeworski et al. 2000; Epstein et al. 2006; Acemoglu et al. 2008). The meta-analysis shows that none of these variables has a significant bearing on oil-regime effects, implying that the relationship between oil and political regime remains unchanged when the values of these variables change. At the same time, the effect of other possible

confounders – colonial and communist legacy – is less clear-cut, necessitating a further inquiry into the sources of these differences.

The MRA findings also shed light on the implications of adopting one or the other measurement of the key variables. The way we choose to measure the explanatory variable – oil wealth – has a significant impact on study results. There is a debate on whether oil *wealth* or oil *dependence* has an effect on political regime, with different studies finding support for one or both variables. In earlier studies, the operational definition of oil abundance – oil exports to GDP ratio – actually measured oil dependence and both its numerator and denominator (GDP) can contain information that biases results (Ross 2008). Ross (2008) suggests a better measure – oil and gas rents per capita. The MRA shows that, across various studies, this variable has a consistently negative and statistically significant coefficient. This implies that a more precise and less biased measure of oil wealth points at more negative oil-regime effects. At the same time, the choice of the measurement of the dependent variable – democracy – does not affect results: regardless of whether we use Polity, Gastil or a dichotomous/trichotomous variable, we get the same results.

These results hold under different estimation methods – regardless of whether OLS is used or not, the results do not change. Introducing country-fixed effects, on the other hand, can result in more positive estimates, although the record is mixed. Finally, the evidence for an “epistemic influence” among different scholars is mixed. All these results point out a need for clearly-framed, context-sensitive and rigorously-tested *causal* accounts.

The small-N study that employed explicit theory-guided within-case process-tracing that fed into structured comparisons across four carefully selected cases affirms the political resource curse thesis. At the same time, the case studies go much deeper into the relationship between oil wealth and regime by focusing on the causal mechanisms hypothesized in the literature and in this study and probing various antecedent conditions and context factors that could have interacted with oil wealth in affecting the causal mechanisms and, ultimately, regime outcomes.

As the case study demonstrates, oil and gas revenues were an important factor in both the autocratization of rule and its entrenchment in Turkmenistan, Kazakhstan, and Azerbaijan. As these revenues flowed directly to the largely opaque government coffers, they increased fiscal resources available to the ruling elites, contributing to their bargaining power domestically and internationally, helping soothe redistributive pressures, and enhancing their coercive capacity. In terms of public spending, the governments in the

three countries were able to maintain medium-to-high level of social spending, subsidies to state enterprises, tax expenditures, and quasi-fiscal activities by state and private enterprises. This contributed to maintaining weak constraints on the executive branches and contributed to low political participation. In terms of public employment, in Turkmenistan and Azerbaijan the oil and gas revenues allowed the governments to maintain large public employment. In all three oil-rich countries, lucrative government jobs increased rent-seeking and competition for public office, thereby increasing the ruling elite's bargaining power. Finally, oil and gas revenues contributed to maintaining robust coercive apparatus that discouraged dissent. The latter calls attention to a need to distinguish between actual repression and coercive capacity – while oil-rich states might be no more repressive than oil-poor states, they have higher capacity to coerce; this can and does deter dissent at the outset.

However, it is easy to overstate the role of oil revenues at the detriment of a more nuanced explanation. For one thing, the size of revenues from oil and gas production does not provide sufficient explanation of the similarities and differences in causal mechanisms and regime outcomes across the four cases because the state coffers in all four countries also received varying amounts of other non-tax revenues, whose effect on taxation, spending, public appointments, and coercion can hardly be empirically separated from that of oil and gas rents. Whereas Azerbaijan and Kyrgyzstan's rents from other natural resources remained low, Turkmenistan's cotton rents, despite fluctuation, remained roughly unchanged and Kazakhstan's rents from non-oil minerals increased over time. This suggests that resource diversity, i.e. the reverse of dependence on single primary commodity, might not necessarily lead to less autocratic regime as argued by some scholars of *rentier state*. In tackling this issue, future research would gain by explicitly theorizing and subsequently testing through process-tracing the effects of dependence versus abundance.

Second, and related, the difference in economic and political effects they entail highlights the importance of distinguishing between two different measures of oil wealth – oil *reserves* and oil *production*. As the cases of Kazakhstan and Azerbaijan in early post-Soviet period suggest, unlike oil production, oil reserves may not have an immediate effect on fiscal policy and coercion. They, however, can contribute to formal and informal sources of patronage through often sizeable inflows not related to actual production, such as signature bonuses. The presence of reserves can also serve as a tool for incumbents to

promote elite cohesion by pacifying potential challengers through their initial cooptation into government – a credible commitment that theoretically grants future access to rents. Finally, reserves can, as the case studies showed, attract the support of influential states interested in the stability of their oil and gas supplies.

Patterns of taxation in the four cases illustrate the limitations of relying only on the measure of oil and gas revenues as an independent variable and challenge the prediction of the resource curse literature, according to which resource-rich countries tax their populations less than resource-poor countries. For instance, taxes on goods, services, income, profits and capital gains were often higher in percent of GDP in oil-rich Kazakhstan than in resource-poor Kyrgyzstan. Employing an alternative, better measure – taxes on income, profits, capital gains, goods and services as % of general government final consumption expenditure (taxes to spending ratio) – suggests that Kyrgyzstan had twice lower tax collections than Kazakhstan. So, by implication from the theory, Kyrgyzstan's public had a lower propensity to demand accountability. But empirical analysis shows the opposite. One way to interpret the higher tax/spending ratio in oil-rich countries is to say that higher resource rents can have spill-over effects, therefore inflating the amounts of collected taxes; if so, an adequate measure of taxes should be “cleaned” of these spill-over effects. Another view can complement this: other non-tax revenues can also have an effect on taxation. At any rate, this highlights the susceptibility of large-N cross-national tests of resource-curse hypotheses to different operationalizations of taxation variables. Future research should explicitly frame (and test) which taxes – for example, personal income or corporate income taxes – entail accountability demands.

The present study's findings also suggest that the “modernization effect” hypothesized by Ross (2001) is redundant. First, the other causal mechanisms – ‘rentier effect’ and ‘repression effect’ – do explain the large part of the variation. Second, while there was little difference between oil-rich Turkmenistan and oil-poor Kyrgyzstan in terms of key factors that collectively define modernization level (such as income, urbanization, etc.), their political regimes were drastically different throughout the post-Soviet period. In addition, Kazakhstan and Azerbaijan in several respects had the level of modernization much higher than that of Kyrgyzstan, yet they still had more autocratic regimes.

Patterns of public spending, public employment, and coercion were generally more in line with the political resource curse hypothesis. Oil-rich countries on average sustained higher level of government spending and employment over time and had a higher coercive

capacity than Kyrgyzstan. Yet, the patterns of changes in government spending within the oil-rich set did not uniformly follow the predictions of the *rentier-state* theory and resource-curse literature. For example, at the time of increasing oil revenues, the government in Kazakhstan reduced its total spending. Although it maintained the same level of social spending, it simultaneously cut transfers and subsidies to households, subsidies to state enterprises, and tax expenditures. Similarly, the government in Kazakhstan also undertook considerable downsizing in the public sector employment. This points out the role other structural and institutional factors have played along with oil.

This study found that political regime differences in Central Eurasia are better explained by the interaction of oil wealth with several antecedent conditions and context variables rather than by oil abundance or another single factor alone. The causal mechanisms hypothesized in the 'resource curse' literature, as discussed above, were neither necessarily present, nor uniform across the cases and throughout the post-Soviet period. This was because a particular interaction of exogenous variables and oil wealth affected the causal mechanisms differently, ultimately entailing different regime outcomes.

One such exogenous factor was the geography of oil and gas production. As the governments in Kazakhstan, Azerbaijan and Turkmenistan engaged in negotiations with multinational oil companies and Kazakhstan also undertook privatization of its oil assets, the factor of different geographies of oil and gas production came to the forefront. In Azerbaijan, the political capital Baku is also the centre of oil production – all major oil fields are in close proximity to Baku and under full control of the elite in power. In Turkmenistan, the gas basin covers most of the territory of the country, the average distance from the capital Ashkhabad to separate production centres is 300 kilometres and Ashkhabad is located conveniently in the middle. The relative proximity to production centres and historical control of the oil and gas sector by the country's elite ensured the lack of any challenges to Niyazov's control of these regions.

In Kazakhstan, on the other hand, oil-producing centres are scattered in the western part of the country, about two thousands kilometres away from both former capital Almaty and new capital Astana. This entailed a different dynamic in mid-1990s as the ruling elite had to make some concessions to the so-called oil barons and regional elites from western regions who previously had a near monopoly over the oil and gas fields and were not content to give it away (Jones Luong 1999; Hoffman 2000). Both elites and populations in these regions expressed discontent at fiscal equalization mechanisms and oil barons were

able to delay the sectoral privatization process (Najman et al. 2005; Jones Luong 1999). As the government had to diffuse opposition to implementation of central government's contracts with multinational oil companies and to keep oil and gas production in full swing, it initially conceded by allowing some, albeit small, degree of fiscal autonomy, making relatively larger spending allocations for these regions, and encouraging multinational oil companies to engage in multiple quasi-fiscal activities in these regions (author's interview with Oraz Jandosov; Najman et al. 2005). It responded by force as well by dismantling Kazakhstanmunaigaz, the state holding company in charge of the country's oil and gas industry in 1997. However, as privatization of the energy sector did not accrue as much revenue as the government expected, in late 1997 Nazarbayev appointed one of the oil barons Nurlan Balgimbayev as Prime Minister with the task of re-considering pending contracts with multinationals and slowing down privatization (Jones Luong 1999).

Another important antecedent condition was the spread of alternative elites within the political system. Preceding political turbulence, regime transition and elite change had an effect on political regimes in Azerbaijan and Kyrgyzstan early on. In Kyrgyzstan, Akayev's regime consolidation efforts were hampered by continuing presence of a sizeable opposition, particularly from former Soviet-era *nomenklatura*. Previous liberalization and dependence on foreign aid also created relatively burgeoning civil society and autonomous mass media. Azerbaijan's previous involvement in war, several elite changes, and brief experimentation with democracy in 1992-1993 also had a lasting effect on political regime consolidation, partly through passing on the seed of regime instability within the elite and partly stimulating creation of an organized opposition, civil society groups, and relatively independent mass media.

The third structural difference between Kazakhstan and Kyrgyzstan on one side and Turkmenistan and Azerbaijan on the other was the size, location, and mobility of Russian ethnic minorities. In Kazakhstan and Kyrgyzstan, the presence of sizeable Russian minorities – and in Kazakhstan's case, their geographic concentration and outnumbering of Kazakhs in the northern regions adjacent to Russia – put constraints on the ruling elite's domestic exercise of its power in 1990s. As protection of rights and interests of Russians in former Soviet republics quickly rose to the foreign policy agenda of new Russian authorities and turned into a tool in political struggles within Russia (King and Melvin 1999), it necessitated a relatively more liberal attitude toward these minorities in Kazakhstan and Kyrgyzstan than in Azerbaijan and Turkmenistan. While these pressures did not affect

taxation or social spending, they resulted in a moderate degree of economic liberalization, particularly in Kazakhstan's northern regions and subsidies to the industrial sector, which was at the time dominated by Russians (Bremmer and Welt 1996). Furthermore, these redistributive pressures were partly reflected in patterns of public office appointments as both Kazakh and Kyrgyz authorities, despite their programmes of national revival, strived to co-opt some ethnic Russian leaders to avoid tensions and to a certain degree prevent the departure of highly-skilled Slavs that was needed for effective functioning of state institutions.

The events that led to the smooth succession of political power in Azerbaijan between 2003 and 2005 and the downfall of Akayev regime in Kyrgyzstan in 2005 also highlight the role played by external legitimation of incumbent's power. External legitimation in each case was certainly not as significant as domestic factors analyzed above. Moreover, external legitimation can be both exogenous and endogenous - i.e. while it can be due to a country's possession of oil and gas resources, it can also stem from other political or economic factors. Therefore, it can be considered a causal mechanism if its level depends on a country's oil resources or it can be seen as context factor if its level is a function of other, non-oil factors, such as political, economic or military links between countries. Unravelling the role played by external legitimation can be one of the priorities for future cross-national research on political resource curse.

The contrast between Kyrgyzstan and the oil-rich countries also suggests that while foreign aid can have the effect similar to that of oil in promoting autocratic rule, it may not be as strong in providing regime stability. Kyrgyzstan's foreign aid was on average three times larger in per capita terms than that of Azerbaijan and more than five times those of Kazakhstan and Turkmenistan. This lends some credence to the view that foreign aid can have a negative effect on political regime similar to that of oil and minerals (Morrison 2007). However, the fact that Akayev's regime in Kyrgyzstan did fall despite the relatively large foreign aid, underlines the difference between the impact of oil and gas revenues and that of foreign aid. Nevertheless, these findings should serve as an important caution for large foreign donors.

In sum, this study highlights the importance of taking into account strategic contexts faced by policy-makers in oil-rich developing countries. However, it also argues that it is not enough to emphasize that "context matters" – it is important to show how it does. One of the priorities of future research on political resource curse can be testing this

study's findings on structural and institutional factors in larger cross-national settings and identifying and testing the interactive effect of other possible antecedent conditions and context factors on regime outcomes.

Appendix

Maps

Map 1. Oil and gas basins and fuel and energy centres in Azerbaijan and Central Asia



Source: U.S. Central Intelligence Agency

Map 2. Ethnic Russians in the Newly Independent States



Source: Perry-Castañeda Library Map Collection, University of Texas at Austin, <http://www.lib.utexas.edu/maps/commonwealth.html>

Selected respondents (non-anonymous personal interviews only)

Azerbaijan

Aydin Mirzazadeh, MP; member, Political Council of the ruling New Azerbaijan Party

Azer Alasgarov, Director, Monetary Policy Department, Central Bank of Azerbaijan

Azer Mehtiyev, Chairman, Center for Support for Economic Initiatives

Eldar Namazov, former Head of the Presidential Secretariat and Assistant to the President
(Heydar Aliyev)

Elnur Khalilov, Programme Officer, United Nations Development Program

Eyyub Huseynov, Chairman, Independent Consumers Union

Gregory Jedrzejczak, Country Manager, World Bank

Gubad Ibadoghlu, Director, Economic Research Center

Ingilab Ahmadov, Director, Public Finance Monitoring Center; Board Member, Extractive
Industries Transparency Initiative (EITI)

Isa Qambar, former Speaker of Parliament; Chairman of opposition Musavat Party

Kristo Kentala, Programme Advisor, United Nations Development Program

Nazim Imanov, former MP and former Head of the Parliamentary Budget Committee

Rasim Musabayov, MP, former Advisor to the President of Azerbaijan (Ayaz Mutallibov)

Sabit Baghirov, former President of the State Oil Company (SOCAR); President,
Entrepreneurship Development Foundation

Shahmar Movsumov, Executive Director, State Oil Fund (SOFAZ)

Sohrab Farhadov, Finance Director, Azerbaijan and Central Asia, PNN Group of Companies

Vagif Rustamov, Head of Research, Center for Local Economic Development; former Head,
Center for Economic Reforms, Ministry of Economic Development

Yadulla Hasanli, former Head of Forecasting and Analysis Department, Ministry of Taxes

Zardusht Alizadeh, former Co-Chairman of Social Democratic Party

Zohrab Ismayil, Head, Center for Assistance to Free Economy

Kazakhstan

Adil Nurmakov, Director, Competitiveness Research Center

Anton Artemyev, Director, Revenue Watch, Soros Foundation-Kazakhstan

Aytolkyn Kurmanova, Director, Institute for Economic Strategies

Bulat Khusainov, Head of Department, Institute of Economics, Ministry of Education and
Science

Chingiz Kanapyanov, Deputy Chairman, Agency of Kazakhstan on Regulation of Activities of the Regional Financial Centre of Almaty city (RFCA)

Courtney Fowler, Partner, PricewaterhouseCoopers

Dave Rees, Tax Consultant

Emil Milushev, Chairman, Board of Directors, Smart Group JSC

Jahangir Jurayev, Partner, Ernst & Young

Kanat Berentayev, Deputy Director, Center for Analysis of Public Problems

Lyaziza Sabyrova, Deputy Director, RAKURS Center for Economic Analysis

Meruert Makhmutova, Director, Public Policy Research Center

Naubet Bissenov, Analyst, Institute for Economic Strategies

Oraz Jandosov, former Deputy Prime Minister and Minister of Finance

Rustam Kadyrzhanov, Head of Department of Political Science, Ministry of Education and Science

Sergey Zlotnikov, Country Director, Transparency International

Sholpan Mukasheva, Advisor to the Chairman, Sovereign Wealth Fund “Samruk-Kazyna”

Svetlana Ushakova, Advocacy Specialist, Counterpart International

Tulegen Askarov, Economic Journalist at *Respublica* Newspaper; Lecturer at Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP)

Yergazin Abdrakhmanov, Director, Corporate Tax and M&A, PricewaterhouseCoopers Tax & Advisory LLP

Zhanibek Khassan, Program Manager, Budget Transparency and Accountability, Soros Foundation-Kazakhstan

Kyrgyzstan

Adylbek Kasymaliyev, Deputy Chair, State Tax Service

Aida Alymbayeva, Director, Social Research Center, American University of Central Asia

Alexander Pugachev, Assistant Professor of Political Science, American University of Central Asia

Asel Saldarbayeva, Program Officer, Kyrgyz Republic Office of the World Bank

Azamat Dikambayev, Head of Economic Department, Office of the President of Kyrgyz Republic (Bakiyev)

Bakyt Dubashev, Economist, International Monetary Fund Representative Office in Kyrgyz Republic

Bermet Tursunkulova, Vice-President for Academic Affairs, American University of Central Asia

Emir Kulov, Head of Department of Political Science, American University of Central Asia

Gulnara Iskakova, Permanent Representative of the Kyrgyz Republic to the United Nations Office in Geneva

Imil Akkoziyev, Deputy Chairman of the State Council on Development of Nanotechnologies, former advisor to the President of Kyrgyz Republic (Akayev)

Jumakadyr Akeneyev, President, Association of Oil Traders; former Minister of Agriculture (Akayev)

Kuban Omuraliyev, Executive Director, Regional chapter of Global Organization of Parliamentarians Against Corruption (GOPAC)

Madat Tiulegenov, former Executive Director, Soros Foundation-Kyrgyzstan; Assistant Professor, American University of Central Asia

Maxim Ryabkov, Director, OSCE Academy Bishkek

Maya Yeraliyeva, Central Asia and Caucasus Coordinator, NGO Forum on Asian Development Bank

Nookat Idrisov, Legal Executive at International Center for Not-for-Profit Law

Nurlan Djoldoshev, Director Budget Transparency and Accountability Program, Soros Foundation-Kyrgyzstan

Sergey Masaulov, Director, Institute for Strategic Analysis and Assessment, Office of the President of Kyrgyz Republic (Bakiyev)

Shairbek Jurayev, Dean of Academic Development, Assistant Professor of Political Science, American University of Central Asia

Zarylbek Kudabayev, former Chairman, National Statistics Committee of Kyrgyz Republic (Akayev)

References

- Aberbach, Joel D., and Bert A. Rockman. 2002. Conducting and Coding Elite Interviews. *PS: Political Science and Politics* 35 (4):673-676.
- Acemoglu, Daron, Simon Johnson, James A. Robinson, and Pierre Yared. 2008. Income and Democracy. *American Economic Review* 98 (3):808-842.
- Acemoglu, Daron, and James A. Robinson. 2005. *Economic Origins of Dictatorship and Democracy*. New York: Cambridge University Press.
- Achen, C. H. 2002. Toward a new political methodology: Microfoundations and ART. *Annual Review of Political Science* 5:423-450.
- Adams, Roy J., Mel Collier, Marcus Meldrum, and British Library. 1991. *Decision support systems in academic libraries, Library and information research report*,. London: British Library Research and Development Department.
- AFX News. 1993. Azerbaijan's Aliyev to Review Western Firms' Oil Contracts. *AFX News*, August 9.
- Agence France Presse. 1991. Communist party headquarters nationalised in Central Asian republic. *Agence France Presse*, August 23.
- . 1993. Aliyev asks Moscow's help in ending war. *Agence France Presse*, September 6.
- . 1993. Azerbaijan to review oil projects drawn up with West. *Agence France Presse*, August 9.
- . 1993. U.S. warns Turkmenistan on human rights. *Agence France Presse*, September 16.
- . 1994. All candidates elected in Turkmen vote. *Agence France Presse*, December 12.
- . 1995. Chief of Azerbnaijani rebels shot dead. *Agence France Presse*, March 17.
- . 1995. Former Kyrgyz premier reinstated in his post. *Agence France Presse*, April 05.
- Ahmadov, Anar. 2005. Dividing the Caspian: Conflicting Geopolitical Agendas Among Littoral States. In *Prospects for Democracy in Central Asia*, edited by B. N. Schlyter. Istanbul: Swedish Research Institute in Istanbul.
- Alam, Asad, and Arup Banerji. 2000. Uzbekistan and Kazakhstan: A Tale of Two Transition Paths? In *Policy Research Working Paper*. Washington, DC: World Bank.
- Alam, Asad, and Mark Sundberg. 2002. *A Decade of Fiscal Transition, Policy research working paper*. Washington, D.C.: World Bank, Europe and Central Asia Region, Poverty Reduction and Economic Management Sector Unit.
- Alesina, Alberto, Reza Baqir, and William Easterly. 1998. Redistributive public employment. *Journal of Urban Economics* (48):219-241.
- Alesina, Alberto, Arnaud Devleeschauwer, William Easterly, Sergio Kurlat, and Romain Wacziarg. 2003. Fractionalization. *Journal of Economic Growth* 8 (2):155-94.
- Alexeev, Michail, and Robert Conrad. 2009. The Elusive Curse of Oil. *Review of Economics and Statistics* 91 (3):586-598.
- Alibeily, Leila. 1993. Human Rights Organizations Step Up Activities, Accusing Aliyev Of Political Repressions. *Segodnya*, November 30, 4.
- Alieva, Leila. 2006. Azerbaijan's Frustrating Elections. *Journal of Democracy* 17 (2):147-160.

- Aliyeva, Leila. 2006. International Observation Missions: Assessments of the 2005 Parliamentary Elections. In *The battle for Azerbaijan: Azeri Perspectives on the Observation of the 2005 Parliamentary Elections and the Post-Election Period*, edited by I. Ø. Stina Torjesen. Oslo: Norwegian Institute of International Affairs.
- Alizade, Zardusht. 2006. The 2005 Parliamentary Elections: A Mirror of Politics and Society in Azerbaijan. In *The Battle for Azerbaijan: Azeri Perspectives on the Observation of the 2005 Parliamentary Elections and the Post-Election Period*, edited by S. Torjesen and I. Øverland. Oslo: Norwegian Institute of International Affairs.
- Allworth, Edward. 1967. *Central Asia: a century of Russian rule*. New York: Columbia University Press.
- Altstadt, Audrey L. . 1997. Azerbaijan's Struggle Toward Democracy. In *Conflict, Cleavage and Change in Central Asia and the Caucasus*, edited by K. Dawisha and B. Parrott. Cambridge: Cambridge University Press.
- Amrekulov, Nurlan. 1999. Sistemniye Ugrozi Bezopasnosti Kazakhstana i Puti Ikh Preodolenia (Systemic Threats to Kazakhstan's Security and the Ways of Overcoming Them - in Russian). *Tsentral'naya Aziya i Kavkaz* 4 (1).
- Anderson, Lisa. 1987. The State in the Middle East and North Africa. *Comparative Politics* 20 (1):1-18.
- Anderson, Richard, M. Steven Fish, Philip Roeder, and Stephen Hanson. 2001. *Postcommunism and the theory of democracy*. Princeton, N.J.: Princeton University Press.
- Annagurban, Yovshan. 2004. Turkmenistan: Sultanistic State. In *Brown Bag Lecture Series*. Center for Russian, East European & Eurasian studies, Stanford University.
- APN Kazakstan. 2005. Influence Groups in the Power and Political System of the Republic of Kazakstan. Almaty: Eurasian Center for Political Research and Agency for Social Technologies "Epicenter".
- Appleton, Simon, Paul Collier, and International Labour Organisation. Rural Employment Policies Branch. 1991. *Agriculture and the macroeconomy: consequences of negative external shocks in Ghana and the Côte d'Ivoire: 1979-87, World Employment Programme research working papers Rural Employment Policy Research Programme*. Geneva: International Labour Office.
- Arifoghlu, Farid, and Shahin Abbasov. 2000. Parlament Azerbaydzana - "Zalojnik" Ispolnitel'noy Vlasti (The Parliament of Azerbaijan - A "Hostage" of the Executive Power). *Tsentral'naya Aziya i Kavkaz* 6 (12).
- Arthur, W. Brian. 1994. Inductive Reasoning and Bounded Rationality. *The American Economic Review* 84 (2):406-411.
- Artykova, Nadira. 1993 Turkmenistan turns to Moscow to stop exodus of Russians. *Agence France Presse*, December 23.
- Ashimbayev, Daniyar. 2007. Politicheskaya Sistema: Reformy, Vybory, Kadry (The Political System: Reforms, Elections, Cadres - in Rus.). *Kazakhstan* (3).
- Askarov, Tulegen. 2010. «Krysha» dlya BTA i "Alyansa" (A "Cover" for BTA and Alyans – in Russian). *Golos Respubliki*, February 26.
- Aslaksen, Silje. 2010. Oil and democracy: More than a cross-country correlation? *Journal of Peace Research* 47 (4):421-431.
- Åslund, Anders. 2002. *Building capitalism : the transformation of the former Soviet bloc*. Cambridge, UK ; New York: Cambridge University Press.

- Auty, R. M., and Indra De Soysa. 2005. *Energy, wealth & governance in the Caucasus & Central Asia : lessons not learned*. London: Routledge.
- Auty, Richard. 1997. Does Kazakhstan Oil Wealth Help or Hinder the Transition? In *Development Discussion Paper*. Cambridge, MA: Harvard Institute for International Development.
- . *Resource Abundance and Economic Development: Improving the Performance of Resource-rich Countries*. Oxford University Press 2001.
- Auty, Richard, and Alan Gelb. 1986. Oil Windfalls in a Small Parliamentary Democracy - Their Impact on Trinidad-and-Tobago. *World Development* 14 (9):1161-1175.
- Azerbaijan Central Election Commission. 2010. *Azerbaycanda Parlament Sechkileri (Parliamentary Elections in Azerbaijan - in Azerbaijani)* 2010 [cited May 2 2010].
- AzeriReport. 2009. *Azerbaijan Will Vote On Constitutional Changes On March 18* 2009 [cited March 18 2009]. Available from http://azerireport.com/index.php?option=com_content&task=view&id=1106&Itemid=42.
- AzTV. 1993. Azerbaijani Leader Addresses Supreme Soviet On Gumbatov And On Referendum: Azerbaijani TV.
- Bagirov, Teymur. 2004. Smert' i Nalogi (Death and Taxes - in Rus.). *Monitor* (64).
- Barro, Robert J. 1999. Determinants of Democracy. *The Journal of Political Economy* 107 (6):S158-S183.
- Basedau, Matthias. 2008. Context Matters: Rethinking the Resource Curse in Sub-Saharan Africa. *African Analyst* 4 (1):53-69.
- Bateman, Ian J., and Andrew P. Jones. 2003. Contrasting Conventional with Multi-Level Modeling Approaches to Meta-Analysis: Expectation Consistency in U.K. Woodland Recreation Values. *Land Economics* 79 (2):235-258.
- Bates, Robert H. 1981. *Markets and States in Tropical Africa : The Political Basis of Agricultural Policies, California series on social choice and political economy ; [1]*. Berkeley; London: University of California Press.
- . 1988. Contra Contractarianism: Some Reflections on the New Institutionalism. *Politics & Society* 16 (2-3):387-401.
- Bates, Robert H., Avner Greif, Margaret Levi, Jean-Laurent Rosenthal, and Barry R Weingast. 1998. *Analytic Narratives*. Princeton, N.J.: Princeton University Press.
- Bates, Robert H., and Da-Hsiang Donald Lien. 1985. Political Power in the International Coffee Organization: A Research Note: Working Paper 587, California Institute of Technology, Division of the Humanities and Social Sciences.
- Bayalinov, K. 1991. V Bishkeke Vse Spokoyno (All Quiet in Bishkek - in Russian). *Komsomolskaya Pravda*, August 23.
- Bayramov, Gubad. 2001. Privatizatsiya v Azerbaydzane: Itogi i Perspektivy. *Tsentral'naya Aziya i Kavkaz* 4 (16).
- Bayulgen, Oksan. 2005. Foreign Investment, Oil Curse, and Democratization: A Comparison of Azerbaijan and Russia (), 7 (1), p. 1. *Business and Politics* 7 (1).
- Bazresch, Carlos, and Santiago Levy. 1991. Populism and Economic Policy in Mexico, 1970-82. In *The Macroeconomics of Populism in Latin America*, edited by R. Dornbusch and S. Edwards. Chicago: University of Chicago Press.
- BBC. 1993. Aliyev in favour of returning Russian servicemen. *BBC Summary of World Broadcasts*, August 20.

- . 1993. Kyrgyz press reports rumours of illegal gold dealing. *BBC*, July 2.
- . 1994. Aliyev blames former president and KGB head for coup attempt. *BBC*, October 5.
- . 1994. Aliyev declares state of emergency in Baku. *BBC*, October 5.
- . 2004. Large-scale layoff of medical workers planned in Turkmenistan *BBC*, 21 January.
- . 2004. Large-scale layoff of medical workers planned in Turkmenistan, 21 January 2004.
- . 2004. Troops to replace Turkmen medics. *BBC*, 1 March.
- . 2004. Turkmen Medics Told Not to Diagnose "Banned" Diseases. *BBC*, 24 May.
- . 2004. Turkmen Medics Told Not to Diagnose "Banned" Diseases, 24 May 2004.
- . 2007. New Turkmen Leader is Inaugurated. *BBC*, 14 February.
- Beblawi, Hazem, and Giacomo Luciani. 1987. *The Rentier State, Nation, state, and integration in the Arab world* ; v.2. London: Croom Helm.
- Beissinger, Mark R. 2008. A New Look at Ethnicity and Democratization. *Journal of Democracy* 19 (3):85-97.
- Bellin, Eva. 2004. The Robustness of Authoritarianism in the Middle East: Exceptionalism in Comparative Perspective. *Comparative Politics* 36 (2):139-157.
- Bennett, A., and C. Elman. 2006. Qualitative research: Recent developments in case study methods. In *Annual Review of Political Science*. Palo Alto: Annual Reviews.
- Bennett, Andrew, and Colin Elman. 2006. Qualitative Research: Recent Developments in Case Study Methods. *Annual Review of Political Science* 9:455-476.
- Berdalina, Zhanat, and Aygul Mustapayeva. 2003. Nalogovaya Nagruzka v Kazakhstane (The Tax Burden in Kazakhstan - in Russian). *Kazakhstan*.
- Berk, Richard A. 2004. *Regression Analysis: A Constructive Critique*. Vol. 11, *Advanced Quantitative Techniques in the Social Sciences*. Thousand Oaks, CA: Sage Publications, Inc
- Bernitz, BL, and B Rechel. 2006. HIV data in Central and Eastern Europe: Fact or Fiction? *HIV/AIDS in Europe: Moving from Death Sentence to Chronic Disease Management*:232 - 242.
- Berry, Jeffrey M. 2002. Validity and Reliability Issues in Elite Interviewing. *PS: Political Science and Politics* 35 (4):679-682.
- Besley, Timothy. 2005. Political Selection. *The Journal of Economic Perspectives* 19 (3):43-60.
- Bird, Chris. 1994. Azerbaidjan and western consortium sign "oil deal of the century". *Agence France Presse*, September 20.
- Bishop, George, and Andrew Smith. 2001. Response-Order Effects and the Early Gallup Split-Ballots. *The Public Opinion Quarterly* 65 (4):479-505.
- Blagov, Sergei. 2000. Russian 'separatists' highlight ethnic tensions. *Asia Times*, <http://www.atimes.com/c-asia/BF16Ag01.html>.
- Blank, David Eugene. 1980. Oil and Democracy in Venezuela. *Current History* 78(454).
- Blank, Stephen. 2007. Turkmenistan and Central Asia After Niyazov. Carlisle,PA: U.S. Army War College, Strategic Studies Institute.

- Boboyev, M., Mambetaliyev N., and Tuturukov N. 2002. *Nalogoviye Sistemy Zarubejnykh Stran: Sodrujestvo Nezavisimykh Gosudarstv (Taxation Systems of Foreign Countries: The Commonwealth of Independent States)*. Moscow: Gelios.
- Boix, Carles. 2003. *Democracy and redistribution, Cambridge studies in comparative politics*. Cambridge: Cambridge University Press.
- Boix, Carles, and Susan C. Stokes. 2003. Endogenous Democratization. *World Politics* 55 (4):517-549.
- Bollen, Kenneth. 1983. World System Position, Dependency, and Democracy: The Cross-National Evidence. *American Sociological Review* 48 (4):468-479.
- Borenstein, Michael, Larry V. Hedges, Julian P. T. Higgins, and Hannah R. Rothstein. 2009. *Introduction to Meta-Analysis, Statistics in practice*. Chichester: John Wiley & Sons.
- Bound, John, David A. Jaeger, and Regina M. Baker. 1995. Problems with Instrumental Variables Estimation When the Correlation Between the Instruments and the Endogeneous Explanatory Variable is Weak. *Journal of the American Statistical Association* 90 (430):443-450.
- BP. 2010. BP Statistical Review of World Energy June 2010.
- Brady, Henry E. 2002. Models of Causal Inference: Going Beyond the Neyman-Rubin-Holland Theory. In *Annual Meetings of the Political Methodology Group*. University of Washington, Seattle, Washington.
- . 2004. Doing Good and Doing Better: How Far Does the Quantitative Template Get Us? In *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- Brady, Henry E., and David Collier. 2004. *Rethinking social inquiry : diverse tools, shared standards*. Lanham, Md.: Rowman & Littlefield.
- Brady, Henry E., David Collier, and Jason Seawright. 2004. Refocusing the Discussion of Methodology. In *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- Brakke, Michael, James Ellis, Malick Fall, Jane Lewis, Tom Niblock, Helena Puig Larrauri, and Nathan Shepherd. 2009. Fighting Corruption, Strengthening Governance: The Role of Civil Society in the Extractive Industries Transparency Initiative. Princeton, NJ: Woodrow Wilson School of Public and International Affairs.
- Brambor, Thomas, William Roberts Clark, and Matt Golder. 2006. Understanding Interaction Models: Improving Empirical Analyses. *Political Analysis* 14 (1):63-82.
- Brauer, Birgit. 2007. Kazakhstan's Economic Challenges: How To Manage the Oil Boom? *Transition Studies Review* 14 (1):188-194.
- Briceno-Leon, Roberto. 2005. Petroleum and Democracy in Venezuela. *Social Forces*, 84(1), September.
- Brouwer, R., I. H. Langford, I. J. Bateman, and R. K. Turner. 1999. A meta-analysis of wetland contingent valuation studies. *Regional Environmental Change* 1 (1):47-57.
- Brovkin, Vladimir N. 1990. The Making of Elections to the Congress of People's Deputies (CPD) in March 1989. *Russian Review* 49 (4):417-442.
- Brown, Bess. 1990. The Public Role in Perestroika in Central Asia. *Central Asian Survey* 9 (1):87 - 96.
- Brumley, Bryan. 1991. Opposition Leader Condemns One-Candidate Election in Kirgizia. *The Associated Press*, October 11.

- Brunnschweiler, Christa N., and Erwin H. Bulte. 2008. The resource curse revisited and revised: A tale of paradoxes and red herrings. *Journal of Environmental Economics and Management* 55 (3):248-264.
- Brzezinski, Zbigniew. 2001. The Primacy of History and Culture. *Journal of Democracy* 12 (4):20-26.
- Buchanan, James. 1980. Rent Seeking and Profit Seeking. In *Toward a theory of the rent-seeking society*, edited by J. M. Buchanan, R. D. Tollison and G. Tullock. College Station: Texas A&M University Press.
- Bueno de Mesquita, Bruce , Alastair Smith, Randolph Siverson, and James Morrow. 2003. *The Logic of Political Survival*. Cambridge, Mass.: MIT Press.
- Bulte, Erwin H., Richard Damania, and Robert T. Deacon. 2005. Resource intensity, institutions, and development. *World Development* 33 (7):1029-1044.
- Bunce, Valerie. 1999. *Subversive institutions : the design and the destruction of socialism and the state, Cambridge studies in comparative politics*. Cambridge: Cambridge University Press.
- Campbell, Donald T. 1975. "Degrees of Freedom" and the Case Study. *Comparative Political Studies* 8 (2).
- Campbell, John L. 1998. Institutional analysis and the role of ideas in political economy. *Theory and Society* 27 (3):377-409.
- Cavadli, Natiq. 2009. Heydər Əliyev məni komandasına çağırmışdı (Heydar Aliyev invited me to his team - in Azerbaijani). *Bizim Yol*, 6 February.
- CERD. 2005. Concluding Observations of the Committee on the Elimination of Racial Discrimination: Turkmenistan. New York: UN Committee on the Elimination of Racial Discrimination.
- Chaudhry, Kiren Aziz. 1994. Economic Liberalization and the Lineages of the Rentier State. *Comparative Politics* 27 (1):1-25.
- . 1997. *The Price of Wealth: Economies and Institutions in the Middle East, Cornell Studies in Political Economy*. Ithaca: Cornell University Press.
- Cheibub, Jose Antonio. 1998. Political Regimes and the Extractive Capacity of Governments: Taxation in Democracies and Dictatorships. *World Politics* 50 (3):349-376.
- CIA. 2005. The World Factbook: Central Intelligence Agency.
- Cingranelli, David L., and David L. Richards. 2008. Cingranelli-Richards (CIRI) Human Rights Dataset 2008.
- Clark, John. 1997. Petro-Politics in Congo. *Journal of Democracy* 8 (3):62-76.
- . 1998. The Nature and Evolution of the State in Zaïre. *Studies in Comparative International Development* 32 (4):3-23.
- Collier, David, James Mahoney, and Jason Seawright. 2004. Claiming Too Much: Warnings About Selection Bias. In *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- Collier, David, Jasjeet Singh Sekhon, and Philip B. Stark. 2010. Editors' Introduction: Inference and Shoe Leather. In *Statistical Models and Causal Inference : A Dialogue with the Social Sciences*, edited by D. Freedman, D. Collier, J. S. Sekhon and P. B. Stark. Cambridge; New York: Cambridge University Press.
- Collier, Paul. 2001. Implications of ethnic diversity. *Economic Policy* 16 (32):127-166.

- Collier, Paul, and Benedikt Goderis. 2007. *Commodity Prices, Growth, and the Natural Resource Curse: Reconciling a Conundrum*. In *Working Paper Series*. Oxford: Centre for the Study of African Economies, Oxford University.
- Collier, Paul, and Anke Hoeffler. 2005. *Democracy and Resource Rents*: Department of Economics, University of Oxford.
- . 2005. Resource Rents, Governance, and Conflict. *Journal of Conflict Resolution* 49 (4):625-633.
- Collier, Ruth Berins, and David Collier. 1991. *Shaping the political arena : critical junctures, the labor movement, and regime dynamics in Latin America*. Princeton, N.J: Princeton University Press.
- Collins, Kathleen. 2006. *Clan Politics and Regime Transition in Central Asia*. Cambridge ; New York, NY: Cambridge University Press.
- Colton, Timothy J., and Michael McFaul. 2002. Are Russians Undemocratic? *Post-Soviet Affairs* 18 (2):91-121.
- Cooley, Alexander A. 1999. *Depending Fortunes: Aid, Oil and the Formation of the Post-Soviet, Post-Colonial States*. Unpublished doctoral dissertation, Columbia University.
- Cooper, John C. B. 2003. Price elasticity of demand for crude oil: estimates for 23 countries. *OPEC Review* 27 (1):1-8.
- Cornwell, Rupert. 1989. Azeri strikers 'blockade' Armenia. *The Independent*, September 15.
- . 1990. Azeris block Moscow troop reinforcements. *The Independent*, January 18.
- Croissant, Michael P., and Bülent Aras. 1999. *Oil and Geopolitics in the Caspian Sea Region*. Westport, Conn., London: Praeger.
- Crystal, Jill. 1995. Civil Society in the Arab Gulf States. In *Civil Society in the Middle East*, edited by A. R. Norton. Leiden: E. J. Brill.
- . 1995. *Oil Politics in the Gulf: Rulers and Merchants in Kuwait and Qatar*. Cambridge: Cambridge University Press.
- Curtis, Glenn E., ed. 1995. *Azerbaijan: A Country Study*. Washington, DC: GPO for the Library of Congress.
- D'Alessio, Dave, and Mike Allen. 2000. Media Bias in Presidential Elections: A Meta-Analysis. *Journal of Communication* 50 (4):133.
- Dahl, Robert. 1997. Development and Democratic Culture. In *Consolidating the Third Wave Democracies*, edited by L. Diamond, M. F. Plattner, Y.-h. Chu and H.-m. Tien. Baltimore, MD: Johns Hopkins University Press.
- Dahl, Robert Alan. 1971. *Polyarchy : participation and opposition*. New Haven: Yale University Press.
- Dahl, Robert Alan, and Edward R. Tufte. 1973. *Size and Democracy, The Politics of the smaller European democracies*. Stanford, Calif.,: Stanford University Press.
- Dave, Bhavna. 2007. *Kazakhstan : ethnicity, language and power, Central Asian studies series*. London ; New York: Routledge.
- Davenport, Christian. 1995. Multi-Dimensional Threat Perception and State Repression: An Inquiry into Why States Apply Negative Sanctions. *American Journal of Political Science* 39 (3):683-713.
- . 1996. The Weight of the Past: Exploring Lagged Determinants of Political Repression. *Political Research Quarterly* 49 (2):377-403.

- . 2007. State Repression and Political Order. *Annual Review of Political Science* 10 (1):1-23.
- Davididi, Renzo. 1995. Regional Trade and Foreign Currency Regimes Among the Former Soviet Republics. *Economics of Planning* 28:29-57.
- Dawisha, Karen, and Bruce Parrott. 1997. *Conflict, cleavage and change in Central Asia and the Caucasus, Democratization and authoritarianism in postcommunist societies*. Cambridge: Cambridge University Press.
- de Melo, Martha , Cevdet Denizer, Alan Gelb, and Stoyan Tenev. 2001. Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies. *The World Bank Economic Review* 15 (1):1-31.
- de Mesquita, B. B., and A. Smith. 2010. Leader Survival, Revolutions, and the Nature of Government Finance. *American Journal of Political Science* 54 (4):936-950.
- de Mesquita, Bruce Bueno, and Alastair Smith. 2009. Political Survival and Endogenous Institutional Change. *Comparative Political Studies* 42 (2):167-197.
- De Waal, Thomas. 2003. *Black garden : Armenia and Azerbaijan through peace and war*. New York: New York University Press.
- Deininger, Klaus, and Lyn Squire. 1996. A New Data Set Measuring Income Inequality. *The World Bank Economic Review* 10 (3):565-91.
- Department of State Dispatch. 1996. Kyrgyz Republic Human Rights Practices, 1995: US Department of State.
- Diamond, Larry. 2002. Thinking About Hybrid Regimes. *Journal of Democracy* 13 (2).
- Dinmore, Guy. 2003. US calls for inquiry into Azerbaijan election. *Financial Times*, October 22.
- Donaldson, Robert H., and Joseph L. Noguee. 2009. *The foreign policy of Russia : changing systems, enduring interests*. 4th ed. Armonk, N.Y.: M.E. Sharpe.
- Donskikh, Alevtina. 2010. Grigoriy Marchenko: My Sdelali Vse Pravil'no, i Vse Nashi Prognozy Podtverdilis' (Grigoriy Marchenko: We Did Everything Right, and All Our Predictions Were Confirmed). *Kazakhstanskaya Pravda*, March 11.
- Doucouliaios, Chris. 2005. Publication Bias in the Economic Freedom and Economic Growth Literature. *Journal of Economic Surveys* 19 (3):367-387.
- Doucouliaios, Chris, and Mehmet Ali Ulubasoglu. 2006. Economic freedom and economic growth: Does specification make a difference? *European Journal of Political Economy* 22 (1):60-81.
- Doucouliaios, Hristos, and Mehmet Ali Ulubaşoğlu. 2008. Democracy and Economic Growth: A Meta-Analysis. *American Journal of Political Science* 52 (1):61-83.
- Douglas A. Yates. 1996. *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon*. Trenton, N.J.: Africa World Press.
- Downs, Anthony. 1957. *An economic theory of democracy*. New York: Harper & Row.
- Dubnov, Arkady. 2006. Buduschiy Pravitel' Turkmenistana Izvesten (The Future Ruler of Turkmenistan Is Known - in Russian). *Vremya Novostei*, December 27, 1-2.
- Duch, Raymond M. 1993. Tolerating Economic Reform: Popular Support for Transition to a Free Market in the Former Soviet Union. *The American Political Science Review* 87 (3):590-608.
- Duckitt, John. 1989. Authoritarianism and Group Identification: A New View of an Old Construct. *Political Psychology* 10 (1):63-84.

- Dunning, Thad. 2004. Conditioning the Effects of Aid: Cold War Politics, Donor Credibility, and Democracy in Africa. *International Organization* 58 (02):409-423.
- . 2005. Resource Dependence, Economic Performance, and Political Stability. *Journal of Conflict Resolution* 49 (4):451-482.
- . 2008. *Crude Democracy: Natural Resource Wealth and Political Regimes*. Cambridge: Cambridge University Press.
- . 2010. Endogenous Oil Rents. *Comparative Political Studies* 43 (3):379-410.
- EBRD. 1999. Business Environment and Enterprise Performance Survey.
- . 2008. Selected Economic Indicators: European Bank for Reconstruction and Development.
- . 2008. Structural and Institutional Change Indicators: European Bank for Reconstruction and Development.
- . 2008. Transition Indicators: European Bank for Reconstruction and Development.
- Ebrill, Liam P., and Oleh Havrylyshyn. 1999. *Tax reform in the Baltics, Russia, and other countries of the former Soviet Union, Occasional paper*. Washington, DC: International Monetary Fund.
- Economist Intelligence Unit. 1996. Kyrgyz Republic Country Profile. London: Economist Intelligence Unit.
- Egorov, G., S. Guriev, and K. Sonin. 2009. Why Resource-poor Dictators Allow Freer Media: A Theory and Evidence from Panel Data. *American Political Science Review* 103 (4):645-668.
- EIU. 1996. Turkmenistan Country Profile. London: Economist Intelligence Unit.
- . 2000. Kyrgyzstan Country Profile. London: Economist Intelligence Unit.
- . 2005. Kyrgyzstan Country Profile. London: Economist Intelligence Unit.
- . 2008. Country Profile: Turkmenistan. London: Economist Intelligence Unit.
- . 2010. Country Report: Turkmenistan. London: Economist Intelligence Unit.
- Ensor, T, and B Amannyazova. 2000. Use of business planning methods to monitor global health budgets in Turkmenistan. *Bulletin World Health Organization* 78:1045 - 1053.
- Entelis, John P. 1976. Oil Wealth and the Prospects for Democratization in the Arabian Peninsula: The Case of Saudi Arabia. In *Arab Oil: Impact on the Arab Countries and Global Implications*, edited by N. A. Sherbiny and M. A. Tessler. New York: Praeger.
- . 1995. Civil Society and the Authoritarian Temptation in Algerian Politics. In *Civil Society in the Middle East*, edited by A. R. Norton. Leiden: E. J. Brill.
- Epstein, D. L., R. Bates, J. Goldstone, I. Kristensen, and S. O'Halloran. 2006. Democratic transitions. *American Journal of Political Science* 50 (3):551-569.
- Eurasianet. 2009. *Eurasia Insight: Reported Plague Outbreak Renews Concerns About Turkmenistan's Healthcare System* (19 July) 2004 [cited August 2 2009]. Available from <http://www.eurasianet.org/departments/insight/articles/eavo71904.shtml>.
- Eurasianet.org. 2004. Turkmenistan Wrestles with Child Labor Issue as Cotton Harvest Approaches. *Eurasianet.org* (August 31), <http://www.eurasianet.org/departments/rights/articles/eavo90104.shtml>.
- . 2010. *Turkmenistan: Berdymukhamedov Plans Massive Infrastructure Investment* (January 19). Eurasianet.org 2010 [cited February 3 2010]. Available from <http://www.eurasianet.org/departments/news/articles/eavo12010d.shtml>.

- Evans, Peter. 1998. Transnational Corporations and Third World States: From the Old Internationalization. In *Transnational Corporations and the Global Economy*, edited by R. Kozul-Wright and R. Rowthorn. Basingstoke: Palgrave Macmillan.
- Fairbanks, Charles. 1996. Clientilism and the Roots of post-Soviet Disorder. In *Transcaucasia, nationalism and social change : essays in the history of Armenia, Azerbaijan, and Georgia*, edited by R. G. Suny. Ann Arbor: University of Michigan Press.
- Fairbanks, Charles H., and Elshan Alekberov. 1994. Azerbaijan and the ominous rumblings over Russia's 'Near Abroad'. *The Washington Times*, November 1, A19.
- Falleti, Tulia G., and Julia F. Lynch. 2009. Context and Causal Mechanisms in Political Analysis. *Comparative Political Studies* 42 (9):1143-1166.
- Fearon, James D. 2003. Ethnic and Cultural Diversity by Country*. *Journal of Economic Growth* 8 (2):195-222.
- Fearon, James D. , and David D. Laitin. 2003. Ethnicity, Insurgency, and Civil War. *American Political Science Review* 97 (1):75-90.
- Feldman, Stanley. 2003. Enforcing Social Conformity: A Theory of Authoritarianism. *Political Psychology* 24 (1):41-74.
- Fenopetov, V. 2006. The drug crime threat to countries located on the 'silk road'. *China Eurasia Forum Quarterly* 4:5 - 13.
- Filatotchev, Igor, Trevor Buck, and Mike Wright. 1992. Privatisation and Entrepreneurship in the Break-up of the USSR. *World Economy* 15 (4):505-524.
- First, Ruth. 1980. Libya: Class and State in an Oil Economy. In *Oil and Class Struggle*, edited by P. Nore and T. Turner. London: Zed Press.
- Fish, M. Steven. 1997. The Determinants of Economic Reform in the Post-communist World. *East European Politics & Societies* 12 (1):31-78.
- . 2002. Islam and Authoritarianism. *World Politics* 55 (1):4-37.
- . 2005. *Democracy derailed in Russia : the failure of open politics, Cambridge studies in comparative politics*. New York ; Cambridge: Cambridge University Press.
- Fish, M. Steven, and Robin S. Brooks. 2004. Does Diversity Hurt Democracy? *Journal of Democracy* 15 (1):154-166.
- Franco, A, C Alvarez-Dardet, and MT Ruiz. 2004. Effect of democracy on health: ecological study. *BMJ* 329:1421 - 1423.
- Franke, A., A. Gawrich, and G. Alakbarov. 2009. Kazakhstan and Azerbaijan as Post-Soviet Rentier States: Resource Incomes and Autocracy as a Double 'Curse'in Post-Soviet Regimes. *Europe-Asia Studies* 61 (1):109-140.
- Freedman, David. 1999. From Association to Causation: Some Remarks on the History of Statistics. *Statistical Science* 14 (3):243-258.
- Freedman, David A. 2010. On Types of Scientific Inquiry: The Role of Qualitative Reasoning. In *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- Freedman, David, David Collier, Jasjeet Singh Sekhon, and Philip B. Stark. 2010. *Statistical models and causal inference : a dialogue with the social sciences*. Cambridge ; New York: Cambridge University Press.
- Freedman, David, Robert Pisani, and Roger Purves. 2007. *Statistics*. 4th ed. 1 vols. New York: W.W. Norton & Co.

- Freedom House. 2002. Turkmenistan. In *Freedom in the World*. Washington, DC: Freedom House.
- . 2004. Turkmenistan. In *Nations in Transit*. New York: Freedom House.
- . 2009. Azerbaijan. In *Nations in Transit 2009*. Washington, DC: Freedom House.
- . 2010. Azerbaijan. In *Nations in Transit 2010*. Washington, DC: Freedom House.
- . 2010. *Freedom in the World*. New York, NY: Rowman & Littlefield Publishers.
- Friedman, Eric, Simon Johnson, Daniel Kaufmann, and Pablo Zoido-Lobaton. 2000. Dodging the grabbing hand: the determinants of unofficial activity in 69 countries. In *Journal of Public Economics*.
- Frye, Timothy. 1997. A Politics of Institutional Choice. *Comparative Political Studies* 30 (5):523-552.
- Furman, Dmitriy. 2001. *Azerbaijan i Rossiya : obshchestva i gosudarstva, Mir, progress, prava cheloveka*. Moskva: Letnii sad.
- . 2004. *Postsovetitskiy politicheskiy rezhim Kazakhstana, Doklady Instituta Evropy*. Moskva: Izd-vo "Ogni".
- Galbraith, James, and Hyunsub Kum. 2005. Estimating the Inequality of Household Incomes: A Statistical Approach to the Creation of a Dense and Consistent Global Data Set. *Review of Income and Wealth* 51 (1):115-143.
- Gandhi, Jennifer, and Adam Przeworski. 2006. Cooperation, Cooptation, and Rebellion Under Dictatorships. *Economics and Politics* 18 (1):1-26.
- Gassebner, Martin, Michael J. Lamla, and James Raymond Vreeland. 2009. Extreme Bounds of Democracy: KOF Working Papers.
- Gause, F. Gregory II. 1995. Regional Influences on Experiments in Political Liberalization in the Arab World. In *Political Liberalization and Democratization in the Arab World*, edited by R. Brynen, B. Korany and P. Noble. Boulder, Colo.: Lynne Rienner.
- Geddes, Barbara. 1990. How the Cases You Choose Affect the Answers You Get: Selection Bias in Comparative Politics. *Political Analysis* 2 (1):131-150.
- . 1999. What Do We Know About Democratization After Twenty Years? *Annual Review of Political Science* 2 (1):115-144.
- Gelb, Alan. 2010. Economic Diversification in Resource Rich Countries. In *Natural Resources, Finance and Development: Confronting Old and New Challenges*. Algiers, Algeria: International Monetary Fund.
- Gellner, Ernest, and John Waterbury. 1977. *Patrons and Clients in Mediterranean Societies*. London: Duckworth for the Center for Mediterranean Studies of the American Universities Field Staff.
- George, Alexander L., and Andrew Bennett. 2005. *Case Studies and Theory Development in the Social Sciences, BCSIA studies in international security*. Cambridge, Mass.: MIT Press.
- Gerasimov, Mikhail. 1994. Struggle For Post Of Turkmenian President Is Already Under Wary. *Segodnya*.
- Gerasimov, Nikolay. 2006. Russkie v Tsarstve Turkmenbashi (Russians in Turkmenbashi's Tsardom). *Rossia.info*.
- Gerring, John. 2007. *Case Study Research: Principles and Practices*. New York: Cambridge University Press.

- Gigerenzer, Gerd, and Daniel G. Goldstein. 1996. Reasoning the fast and frugal way: Models of bounded rationality. *Psychological Review* 103 (4):650-669.
- Gilmour, Karen. 1988. Strike Continues In Nagorno-Karabakh. *The Associated Press*, March 28.
- Glass, Gene V., Barry McGaw, and Mary Lee Smith. 1981. *Meta-analysis in social research*. Beverly Hills: Sage Publications.
- Gleason, Gregory. 1990. Marketization and Migration: The Politics of Cotton in Central Asia. *Journal of Soviet Nationalities* 1 (2):66-98.
- . 1997. *The Central Asian states: discovering independence, Westview series on the post-Soviet republics*. Boulder, Colo.: WestviewPress.
- Global Witness. 2006. It's a Gas: Funny Business in the Turkmen-Ukraine Gas Trade. London: Global Witness.
- Godinho, J, T Novotny, H Tadesse, and A Vinokur. 2004. Turkmenistan. *HIV/AIDS and Tuberculosis in Central Asia, Country Profiles*.
- Goldberg, Ellis, Erik Wibbels, and Eric Mvukiyehe. 2008. Lessons from Strange Cases: Democracy, Development, and the Resource Curse in the U.S. States. *Comparative Political Studies* 41 (4-5):477-514.
- Goldstein, Harvey. 2010. *Multilevel Statistical Models*. 4th ed, *Wiley Series in Probability and Statistics*. West Sussex: Wiley.
- Goldthorpe, John A. . 1997. Current issues in comparative macrosociology: A debate on methodological issues. *Comparative Social Research* 16:1-26.
- Gray, Dale. 1998. Energy Tax Reform in Russia and Other Former Soviet Union Countries. *Finance and Development* 35 (3).
- Greif, Avner. 1998. Self-Enforcing Political Systems and Economic Growth: Late Medieval Genoa. In *Analytic Narratives*, edited by R. H. Bates, A. Greif, M. Levi, J.-L. Rosenthal and B. R. Weingast. Princeton, N.J.: Princeton University Press.
- Greif, Avner, and David D. Laitin. 2004. A Theory of Endogenous Institutional Change. *American Political Science Review* 98 (4):633-652.
- Grib, Natalia, and Alexander Gudkov. 2006. "Gazprom" Soskakivayet s Tarifa (Gazprom Jumping Off the Tarrif - in Russian). *Kommersant*.
- Grigoryev, Leonid, and Asem Nusupova. 2004. Kazakhstan: Problemy Nakopleniya v Usloviyakh Formirovania Rynochnoy Ekonomiki. *Tsentral'naya Aziya i Kavkaz* 4 (34).
- Guliev, Zafar. 2006. Parliamentary Elections in Azerbaijan: Democratic Expectations Versus Imitated Realities. In *The battle for Azerbaijan: Azeri Perspectives on the Observation of the 2005 Parliamentary Elections and the Post-Election Period*, edited by I. Ø. Stina Torjesen. Oslo: Norwegian Institute of International Affairs.
- Guliyev, Farid. 2005. Post-Soviet Azerbaijan: Transition to Sultanistic Semiauthoritarianism? An Attempt at Conceptualization. *Demokratizatsiya: The Journal of Post-Soviet Democratization* 13 (3):393-436.
- . 2009. End of Term Limits: Monarchical Presidencies on the Rise. *The Harvard International Review* February 29.
- Gurses, Mehmet. 2009. State-sponsored development, oil and democratization. *Democratization* 16 (3):508-529.

- Haber, Stephen. 2006. Authoritarian Government. In *The Oxford Handbook of Political Economy*, edited by B. Weingast and D. Wittman. Oxford: Oxford University Press.
- Haber, Stephen, and Victor Menaldo. 2011. Do Natural Resources Fuel Authoritarianism? A Reappraisal of the Resource Curse. *American Political Science Review* 105 (01):1-26.
- Haggard, Stephan, and Robert R. Kaufman. 1995. *The political economy of democratic transitions*. Princeton, N.J: Princeton University Press.
- Hale, Henry E. 2004. Divided We Stand: Institutional Sources of Ethnofederal State Survival and Collapse. *World Politics* 56 (02):165-193.
- Hall, Peter A. 2003. Aligning Ontology and Methodology in Comparative Research. In *Comparative Historical Analysis in the Social Sciences*, edited by J. Mahoney and D. Rueschemeyer. New York: Cambridge University Press.
- Hall, Peter A., and Rosemary C. R. Taylor. 1996. Political Science and the Three New Institutionalisms*. *Political Studies* 44 (5):936-957.
- Halliday, Fred. 1996. *Islam and the myth of confrontation : religion and politics in the Middle East*. London ; New York: I.B. Tauris.
- Healy, J, J Falkingham, and M McKee. 2002. Health care systems in transition. *Health Care in Central Asia*:179 - 193.
- Heradstveit, Daniel. 2001. Democratic development in Azerbaijan and the role of the Western oil industry. *Central Asian Survey* 20 (3):261 - 288.
- . 2001. Democratic development in Azerbaijan and the role of the Western oil industry. *Central Asian Survey* 20 (3):261-88.
- Herb, Michael. 1999. *All in the Family: Absolutism, revolution, and democracy in the Middle East*. . Albany: State University of New York Press.
- . 2005. No Representation without Taxation? Rents, Development, and Democracy. *Comparative Politics* 37 (3):297-316.
- Hertog, Steffen. 2010. Defying the Resource Curse: Explaining Successful State-Owned Enterprises in Rentier States. *World Politics* 62 (2):261-301.
- Hicken, Allen. 2011. Clientelism. *Annual Review of Political Science* 14 (1):289-310.
- Hirschman, Albert O. 1977. A generalized linkage approach to development, with special reference to staples. *Economic Development and Cultural Change* 25 (supplement):67-98.
- Hoffman, David. 1999. Oil and Development in Post-Soviet Azerbaijan. *NBR Analysis* 10 (3).
- . 2000. Oil and state-building in post-Soviet Azerbaijan and Kazakhstan, Political Science, PhD Dissertation, University of California, Berkeley, Berkeley.
- Hogan, James E. . 1990. New Tax and Companies Legislation in the USSR. *Review of Socialist Law* 16 (4):351-362.
- Holzman, Franklyn D. 1950. Commodity and Income Taxation in the Soviet Union. *The Journal of Political Economy* 58 (5):425-433.
- Horiuchi, Yusaku, and Swarnim Waglé. 2008. 100 Years Of Oil: Did It Depress Democracy and Sustain Autocracy? In *Annual Meeting of the American Political Science Association*. Boston, Massachusetts.
- Hughes, James. 1997. Sub-National Elites and Political Transformation in Russia: A Reply to Khryshtanovskaya and White. *Europe-Asia Studies* 49 (6):1017-34.
- Hughes, James, and Peter John. 2001. Local elites and transition in Russia: adaptation or competition? *British Journal of Political Science* 31 (4):673-686.

- Hughes, James, and Gwendolen Sasse, eds. 2001. *Ethnicity and Territory in the Former Soviet Union: Regions in Conflict*. London, England: Frank Cass.
- Humadi, Zuhair. 1995. Civil Society under the Ba'ath in Iraq. In *Toward Civil Society in the Middle East?*, edited by J. Schwedler. Boulder, Colo.: Lynne Rienner.
- Human Rights Watch. 2007. World Report 2007. New York, NY: Human Rights Watch.
- Humphreys, Macartan, Jeffrey Sachs, and Joseph Stiglitz. 2007. *Escaping the Resource Curse*. New York: Columbia University Press.
- Humphreys, Macartan, and Martin Sandbu. 2007. The Political Economy of Natural Resource Funds. In *Escaping the Resource Curse*, edited by M. Humphreys, J. Sachs and J. Stiglitz. New York: Columbia University Press.
- Hunter, John E., and Frank L. Schmidt. 2004. *Methods of meta-analysis : correcting error and bias in research findings*. 2nd ed. Thousand Oaks, CA ; London: Sage.
- Hunter, Shireen T. 1996. *Central Asia since independence, The Washington papers*. Westport, Conn: Praeger.
- Huntington, Samuel P. 1991. *The third wave : democratization in the late twentieth century, The Julian J. Rothbaum distinguished lecture series ; v. 4*. Norman: University of Oklahoma Press.
- . 1996. *The clash of civilizations and the remaking of world order*. New York: Simon & Schuster.
- Huskey, Eugene. 1997. Kyrgyzstan: The fate of Political Liberalization. In *Conflict, Cleavage and Change in Central Asia and the Caucasus*, edited by K. Dawisha and B. Parrott. Cambridge: Cambridge University Press.
- . 2001. Democracy and Institutional Design in Russia. In *Contemporary Russian Politics*, edited by A. Brown. New York: Oxford University Press.
- ICG. 2004. Political Transition in Kyrgyzstan: Problems and Prospects. Osh/Brussels: International Crisis Group.
- . 2004. Repression and Regression in Turkmenistan: A New International Strategy. Osh/Brussels: International Crisis Group.
- . 2005. Kyrgyzstan: After the Revolution. Bishkek/Brussels: International Crisis Group.
- ILO. 2008. LABORSTA: Database of Labour Statistics: International Labour Organization.
- . 2010. LABORSTA Labour Statistics Database: International Labour Organization.
- Imbeau, Louis M., François Pétry, and Moktar Lamari. 2001. Left-right party ideology and government policies: A meta-analysis. *European Journal of Political Research* 40 (1):1-29.
- IMF. 1999. Turkmenistan: Recent Economic Developments. Washington, D.C.: International Monetary Fund.
- . 2004. Republic of Kazakhstan: Selected Issues, IMF Country Report No. 04/362. Washington, DC: International Monetary Fund.
- . 2004. Turkmenistan: 2004 Article IV Consultation. Washington, D.C.: International Monetary Fund.
- . 2005. Republic of Azerbaijan: Ex Post Assessment of Longer-Term Program Engagement. Washington, DC: International Monetary Fund.
- . 2010. Government Finance Statistics: International Monetary Fund.

- Imse, Ann. 1990. Dozens Dead in Azerbaijani Capital After Troops Move In. *The Associated Press*, January 21.
- Interfax. 1992. Elchibey on Currency Reform and the Fight Against Corruption. *Interfax*, 24 August.
- . 1993. Azerbaijan People's Front leaders arrested. *Interfax*, September 5.
- . 1994. Kyrgyz Government Resigns After Parliament Revolt. *Interfax*, September 5.
- . 1994. Ministers arrested for involvement in uprising. *Interfax news agency*, October 16.
- . 1994. Turkmen diplomat says charges laid against arrested dissidents. *Interfax*, December 20.
- . 1995. Canadian company to develop Kazakh gold field. *Interfax*, May 19.
- . 1996. Western Consortium Confirmed Obligations Involving Kazakhstan's Gold Field Development Project. *Interfax*, September 13.
- . 1997. Winner of oil tender announced. *Interfax*, March 28.
- International Herald Tribune. 2007. Turkmen officials destroy 562 kilograms of illegal drugs. 7 February.
- IRIN. 2004. Prison Conditions Remain Bleak in Turkmenistan. *Integrated Regional Information Network*, 30 September.
- . 2004. Turkmenistan: Heroin Use Poses a Growing Challenge. *Integrated Regional Information Network*, 5 October.
- . 2005. Turkmenistan: Drug addiction on the Rise. *Integrated Regional Information Network*, 2 August.
- . 2007. Turkmenistan: President Sworn in Amid Cautious Hope for Change. *Integrated Regional Information Network*, 14 February.
- Isham, Jonathan, Michael Woolcock, Lant Pritchett, and Gwen Busby. 2005. The Varieties of Resource Experience: Natural Resource Export Structures and the Political Economy of Economic Growth. *The World Bank Economic Review* 19 (2):141-174.
- Ismayilov, Eldar. 1999. Vlast' i Oppozitsia Nakanune i v Period Prezidentskoy Izbiratel'noy Kampanii v Azerbaydzhane (The Authorities and Opposition Before and During Presidential Election Campaign in Azerbaijan - in Russian). *Tsentral'naya Aziya i Kavkaz* 1 (2).
- Isupov, Arkadi i Aleksandrovich. 1964. *Natsionalny'i sostav naselenii i a SSSR : po itogam perepisi 1959 g.* Moskva: Statistika.
- Isupov, Arkadi i Aleksandrovich, and Gosudarstvenny'i komitet SSSR po statistike. Informat'sionno-izdatel'ski'i t'sentr. 1991. *Natsionalny'i sostav naselenii i a SSSR : po dannym Vsesoiuzno'i perepisi naselenii i a 1989 g.* Moskva: Finansy i statistika.
- ITAR-TASS. 1993. Azerbaijani parliament elects new speaker. *ITAR-TASS*, November 9.
- . 1993. Boleye 10% Chlenov Kazakhskogo Parlamenta Ushli v Otstavku 3-go Dekabrya (Over 10% of Kazakh parliament members resign on 3rd December - in Russian). *ITAR-TASS news agency*, December 9.
- . 1993. Talks with Russian military commander on border security end in agreement. *ITAR-TASS*, December 21.
- . 1993. Turkmenistan Triples Oil Prices. *ITAR-TASS*, January 16.

- . 1994. Akayev gives latest Slav migration figures. *ITAR-TASS news agency*, October 26.
- . 1994. Members of Kyrgyz parliament said to seek conflict with president. *ITAR-TASS news agency*, July 22.
- . 1994. New Karabakh cease-fire agreement reached. *ITAR-TASS*, May 12.
- . 1994. Premier dismissed; replaced by deputy. *ITAR-TASS news agency*, October 6.
- . 1994. President sacks deputy premiers. *ITAR-TASS news agency* October 17.
- . 1995. Deputies approve government but reject finance minister. *ITAR-TASS news agency*, April 20.
- . 1995. Kyrgyz president dismisses last ethnic Russian aide. *ITAR-TASS news agency*, April 7.
- . 1996. Kyrgyz president gives wider powers to local governors (in Russian). *ITAR-TASS news agency*, March 24.
- IWPR. 2004. Turkmen Doctors Fear Epidemic. *Institute for War Peace Reporting*, 13 July.
- . 2004. Turkmenistan's Rising Drugs Crisis. *Institute for War Peace Reporting*, 22 June.
- . 2004. Turkmenistan: No to Foreign Education. *Institute for War Peace Reporting*, 18 May.
- . 2005. Turkmenbashi Wields The Axe. *Institute for War Peace Reporting*, 11 March.
- . 2005. Turkmenistan: Women Drawn into Drug Trade. *Institute for War Peace Reporting*, 12 August.
- Izvestiya. 1993. Huge wage rises in Turkmenistan. *Izvestiya*, May 20.
- Jensen, Nathan, and Leonard Wantchekon. 2004. Resource Wealth and Political Regimes in Africa. *Comparative Political Studies* 37 (7):816-841.
- Johnson, Simon, Daniel Kaufmann, and Andrei Shleifer. 1997. The Unofficial Economy in Transition. *Brookings Papers on Economic Activity* 28 (2):159-240.
- Jones Luong, Pauline. 1998. Ethnopolitics and Institutional Design: Explaining the Establishment of Electoral Systems in post-Soviet Central Asia, Unpublished doctoral dissertation, Harvard University.
- . 2002. *Institutional change and political continuity in post-Soviet Central Asia : power, perceptions, and pacts*, *Cambridge studies in comparative politics*. Cambridge: Cambridge University Press.
- . 2004. *The transformation of Central Asia : states and societies from Soviet rule to independence*. Ithaca: Cornell University Press.
- Jones Luong, Pauline 1999. Kazakhstan: The Long-Term Costs of Short-Term Gains. *NBR Analysis* 10 (3).
- Jones Luong, Pauline, and Erika Weinthal. 2001. Prelude to the Resource Curse. *Comparative Political Studies* 34 (4):367-399.
- . 2006. Rethinking the Resource Curse: Ownership Structure, Institutional Capacity, and Domestic Constraints. *Annual Review of Political Science* 9:241 -263.
- . 2010. *Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States*. New York, NY: Cambridge University Press.
- Jowitt, Kenneth. 1975. Inclusion and Mobilization in European Leninist Regimes. *World Politics* 28 (1):69-96.

- Junisbai, Barbara, and Azamat Junisbai. 2005. The Democratic Choice of Kazakhstan: A Case Study in Economic Liberalization, Intraelite Cleavage, and Political Opposition. *Demokratizatsiya* 13 (3):373-392.
- Juraev, Shairbek. 2008. Kyrgyz democracy? The Tulip Revolution and beyond. *Central Asian Survey* 27 (3-4):253-264.
- Kalabugin, Valeriy. 2005. Azerbaijan: Kakogo Tsveta Budet Revolutsia (Azerbaijan: What Will Be the Color of the Revolution - in Russian). *Nezavisimaya Gazeta*, 3 June.
- Karl, Terry Lynn. 1987. Petroleum and Political Pacts: The Transition to Democracy in Venezuela. *Latin American Research Review* 22(1), pp. 63-94
- . 1997. *The Paradox of Plenty : Oil Booms and Petro-States, Studies in international political economy* ; 26. Berkeley: University of California Press.
- . 1997. *The paradox of plenty : oil booms and petro-states, Studies in international political economy*. Berkeley: University of California Press.
- Katell, Andrew. 1988. Armenian Strikes, Marches Shut Down Several Soviet Cities. *The Associated Press*, June 10.
- Katznelson, Ira, and Barry R. Weingast. 2005. *Preferences and situations : points of intersections between historical and rational choice institutionalism*. New York: Russell Sage Foundation.
- Kaufmann, Daniel, and Paul Siegelbaum. 1997. Privatization and Corruption in Transition Economies. *Journal of International Affairs* 50.
- Kazakhstan State Statistical Agency. 2000. *Natsionalnyi Sostav Naseleniia Respubliki Kazakhstan: Itogi Perepisi naseleniia 1999 goda v Respublike Kazakhstan*. Vol. 2, *Itogi perepisi naseleniia 1999 goda v Respublike Kazakhstan*. Almaty: Agenstvo Respubliki Kazakhstan po Statistike.
- Kazakhstanskaya Pravda. 2008. On Taxes and Other Mandatory Payments to the Budget (Tax Code). *Kazakhstanskaya Pravda*, December 13.
- Kazemi, Farhad. 1995. Civil Society and Iranian Politics. In *Civil Society in the Middle East*, edited by A. R. Norton. Leiden: E. J. Brill.
- Kechichian, Joseph A., and Theodore W. Karasik. 1995. The Crisis in Azerbaijan: How Clans Influence the Politics of an Emerging Republic. *Middle East Policy* 4 (1-2):57-71.
- Keddie, Nikki R., Yann Richard, and Nikki R. Keddie. 2003. *Modern Iran : roots and results of revolution*. New Haven, CT: Yale University Press.
- Keller, Bill. 1988. Soviet Dismisses Two Party Chiefs In Tense Republics. *The New York Times*, May 22.
- . 1990. Did Moscow Incite Azerbaijanis? Some See a Plot. *The New York Times*, February 19.
- Kennedy, Ryan. 2007. Distribution and Power in Petro-States. In *The Annual Meeting of the Midwest Political Science Association*. Chicago, IL.
- Kerimi, N. 2000. Opium use in Turkmenistan: a historical perspective. *Addiction* 95:1319 - 1333.
- Kessler, Timothy P. 1999. *Global Capital and National Politics: Reforming Mexico's Financial System*. Westport, Conn.: Praeger.
- Kimmage, Daniel. 2008. *Kazakhstan: A Shaken System*. EurasiaNet 2006 [cited November 10 2008]. Available from <http://www.eurasianet.org/departments/insight/articles/pp030506.shtml>.

- King, Charles. 2000. Post-Postcommunism: Transition, Comparison, and the End of "Eastern Europe". *World Politics* 53 (1):143-172.
- King, Charles, and Neil J. Melvin. 1999. Diaspora Politics: Ethnic Linkages, Foreign Policy, and Security in Eurasia. *International Security* 24 (3):108-138.
- King, Gary, Robert O. Keohane, and Sidney Verba. 1994. *Designing social inquiry : scientific inference in qualitative research*. Princeton, N.J: Princeton University Press.
- Koeda, Junko, and Vitali Kramarenko. 2008. Impact of government expenditure on growth: the case of Azerbaijan. Washington, DC: International Monetary Fund.
- Kommersant. 2009. *Turkmenistan Buys Russian Weapons* (June 24). Kommersant 2008 [cited May 12 2009]. Available from <http://www.kommersant.com/page.asp?id=905617>.
- Komsomolskaya Pravda. 1994. Russian newspaper closed down in Turkmenistan. *Komsomolskaya Pravda*.
- Kopstein, Jeffrey S., and David A. Reilly. 2000. Geographic Diffusion and the Transformation of the Postcommunist World. *World Politics* 53 (1):1-37.
- Kozlov, Sergei. 1993. Sovety Dobrovol'no Raspuskayutsya (Soviets Disband Of Their Own Free Will - in Russian). *Nezavisimaya Gazeta*, November 23.
- Kronenberg, Tobias. 2004. The curse of natural resources in the transition economies. *Economics of Transition* 12 (3):399-426.
- Kuliyev, Gasan. 1999. Mify i Real'nosti Neftyanoy Strategii Azerbajjana (Myths and Reality of Azerbaijan's Oil Strategy - in Russian). *Tsentral'naya Aziya i Kavkaz* 4 (5).
- Kulov, Emir. 2008. March 2005: parliamentary elections as a catalyst of protests. *Central Asian Survey* 27 (3-4):337-347.
- Kurbanova, Anna. 2004. Turkmenistan to introduce paid medical services. *ITAR-TASS*, 8 January.
- Kurtov, Azhdar. 2003. Formula Turkmenbashi: Za i Protiv (Turkmenbashi's Formula: Pros and Cons - in Russian). *Mejdunarodnie Protsessy* 3 (3).
- Kuru, Ahmet. 2002. Between the State and Cultural Zones: Nation Building in Turkmenistan. *Central Asian Survey* 21 (1):71-90.
- Kyrgyz Radio. 1996. President Akayev orders pension increase from 1st February. *Kyrgyz Radio*, January 2.
- Lakatos, Imre. 1980. *The Methodology of Scientific Research Programmes*. Edited by J. Worrall and G. Currie. Vol. 1, *Philosophical Papers*. New York: Cambridge University Press.
- Lam, Ricky, and Leonard Wantchekon. 2003. Political Dutch Disease: Northwestern University, New York University.
- Lau, Richard R., Lee Sigelman, Caroline Heldman, and Paul Babbitt. 1999. The Effects of Negative Political Advertisements: A Meta-Analytic Assessment. *The American Political Science Review* 93 (4):851-875.
- Lebedev, Gennadiy. 2002. Turkmenskiy Tranzit: Rukovodstvo i Spetsslujby Turkmenii Prichastny k Torgovle Narkotikami (Turkmen Transit: Turkmeni's Administration and Intelligence Services Are Involved in Drug Trade) *Novaya Gazeta* (4 November), <http://2002.novayagazeta.ru/nomer/2002/82n/n82n-s24.shtml>.

- Lesbekov, Gabit. 2000. The Analysis of Features of Functioning of Main Taxes in the Republic of Kazakhstan (Analiz Osobennostey Funktsionirovaniya Osnovnyx Nalogov v Respublike Kazakhstan - in Russ.). *Vestnik KazGU* 6.
- Levi, Margaret. 1988. *Of Rule and Revenue, California series on social choice and political economy*. Berkeley: University of California Press.
- . 1998. Conscription: The Price of Citizenship. In *Analytic Narratives*, edited by R. H. Bates, A. Greif, M. Levi, J.-L. Rosenthal and B. R. Weingast. Princeton, N.J.: Princeton University Press.
- LeVine, Steve. 2007. *The oil and the glory : the pursuit of empire and fortune on the Caspian Sea*. 1st ed. New York: Random House.
- Lewis, Bernard. 1996. Islam and Liberal Democracy: A Historical Overview. *Journal of Democracy* 7 (2):52-63.
- Lewis, David. 2008. The dynamics of regime change: domestic and international factors in the 'Tulip Revolution'. *Central Asian Survey* 27 (3-4):265-277.
- LI, QUAN. 2003. and RAFAEL REUVENY (2003). Economic Globalization and Democracy: An Empirical Analysis. *British Journal of Political Science*, 33, pp 29-54
- Liebersohn, Stanley. 1985. *Making it count : the improvement of social research and theory*. Berkeley: University of California Press.
- Lijphart, Arend. 1971. Comparative Politics and the Comparative Method. *The American Political Science Review* 65 (3):682-693.
- . 1977. *Democracy in plural societies : a comparative exploration*. New Haven ; London: Yale University Press.
- Lillis, Joanna. 2009. *Kazakhstan: Corruption Scandals an Indicator of Clan Infighting in Astana?* Eurasianet.org, November 5, 2009 2009 [cited July 9 2009]. Available from <http://www.eurasianet.org/departments/insightb/articles/eavo71009a.shtml>.
- . 2010. *A Modest "Leader of the Nation"* (June 16). Eurasianet.org 2010 [cited June 16 2010]. Available from <http://www.eurasianet.org/node/61312>.
- Linz, Juan J., and Alfred C. Stepan. 1996. *Problems of democratic transition and consolidation : southern Europe, South America, and post-communist Europe*. Baltimore: Johns Hopkins University Press.
- Lipsey, Mark W. 2003. Those Confounded Moderators in Meta-Analysis: Good, Bad, and Ugly. *Annals of the American Academy of Political and Social Science* 587 (1):69-81.
- Lipsky, A. 1993. The Community of Central Asia: Inside or Outside the CIS? *International Affairs* 39 (10).
- Loewenberg, Gerhard. 1971. The Influence of Parliamentary Behavior on Regime Stability: Some Conceptual Clarifications. *Comparative Politics* 3 (2):177-200.
- Lowi, Miriam R. 2004. Oil Rents and Political Breakdown in Patrimonial States: Algeria in Comparative Perspective. *The Journal of North African Studies* 9 (3):83-102.
- Lubin, Nancy. 1999. Energy Wealth, Development, and Stability in Turkmenistan. *NBR Analysis* 10 (3):61-78.
- Luciani, Giacomo. 1987. Allocation vs. Production States: A Theoretical Framework. In *The Rentier State*, edited by H. Beblawi and G. Luciani. London: Croom Helm.
- . 1994. The Oil Rent, the Fiscal Crisis of the State and Democratization. In *Democracy Without Democrats?: The Renewal of Politics in the Muslim World*, edited by G. Salamé. New York: I. B. Tauris.

- Mahdavy, Hossein. 1970. Patterns and Problems of Economic Development in Rentier States: The Case of Iran. In *Studies in the Economic History of the Middle East*, edited by M.A.Cook. Oxford: Oxford University Press.
- Mahoney, James. 2000. Path dependence in historical sociology. *Theory and Society* 29 (4):507-548.
- . 2007. Qualitative Methodology and Comparative Politics. *Comparative Political Studies* 40 (2):122-144.
- Mahoney, James, and Dietrich Rueschemeyer. 2003. *Comparative historical analysis in the social sciences, Cambridge studies in comparative politics*. Cambridge: Cambridge University Press.
- Mainayev, Boris. 1990. Academician Akayev Elected President of Kirghizstan. *ITAR-TASS*, October 29.
- Malysheva, Dina. 2005. Neytralitet po-Turkmenski (Neutrality the Turkmen Way - in Russian). *Novaya Politika* (7 September), <http://www.novopol.ru/>.
- Mamedkuliev, C, E Shevkun, and S Hajioff. 2002. Turkmenistan. *Health Care in Central Asia*:207 - 209.
- Mamedov, Sokhbet. 1993. Colonel Gumbatov Opens Fire To Kill And Flees To Woods. *Izvestiya*, August 25.
- Mammadli, Elshad. 2002. Surət Hüseynovu Tutmağa Onu Tanimayan Adami Göndəriblər! *Yeni Musavat*, 7 July.
- Mann, JM, L Gostin, S Gruskin, T Brennan, Z Lazzarini, and H Fineberg. 1999. Health and human rights. *Health and Human Rights: a Reader*:7 - 20.
- Mann, Michael. 1993. *The sources of social power. Vol. 2, The rise of classes and nation states, 1760-1914*. Cambridge: Cambridge University Press.
- Marshall, Monty G. , Ted Robert Gurr, and Keith Jagers. 2010. Polity IV Project: Political Regime Characteristics and Transitions, 1800-2009: Center for Systemic Peace.
- Marshall, Monty G. , and Donna Ramsey Marshall. 2010. Coup d'Etat Events, 1946-2009: Center for Systemic Peace.
- Masanov, Nurbulat. 1998. Politicheskaya i Ekonomicheskaya Elita Kazakhstana. *Tsentrall'naya Aziya i Kavkaz* 1 (1).
- Masanova, Laura. 1999. Resursno-Syryevoy Profil' Respubliki Kazakhstan i Problemy Stanovleniya Chastnoy Sobstvennosti i Gosudarstvennogo Suvereniteta. *Tsentrall'naya Aziya i Kavkaz* 1 (2).
- Masimov, Ali. 1999. Azerbaydzan: Stariy Byudjet - Noviye Problemy. *Tsentrall'naya Aziya i Kavkaz* 2 (3).
- . 1999. Privatizatsiya v Azerbaidzhan: Realii, Problemy, Perspektivy (Privatization in Azerbaijan: Realities, Problems, Prospects - in Russian). *Tsentrall'naya Aziya i Kavkaz* 4.
- Mayr, Walter. 2006. Currying Favor with the Turkmenbashi. *Spiegel Online* (25 April), <http://www.spiegel.de/international/spiegel/o,1518,412923,00.html>.
- McFaul, Michael. 2002. The Fourth Wave of Democracy and Dictatorship: Noncooperative Transitions in the Postcommunist World. *World Politics* 54 (2):212-244.
- McGlinchey, Eric. 2003. Paying for patronage: regime change in Post-Soviet Central Asia, Unpublished PhD dissertation, Princeton University, Princeton.

- McKay, Mary Jayne. 2004. Turkmenbashi Everywhere. *CBS News* (4 January), <http://www.cbsnews.com/stories/2003/12/31/60minutes/main590913.shtml>.
- Mehdiyou, Kamyar. 2000. Ownership of Oil and Gas Resources in the Caspian Sea. *The American Journal of International Law* 94 (1):179-189.
- Mehlum, Halvor, Karl Moene, and Ragnar Torvik. 2006. Institutions and the Resource Curse*. *The Economic Journal* 116 (508):1-20.
- Messiant, Christine. 2001. The Eduardo Dos Santos Foundation: or, How Angola's Regime is Taking over Civil Society. *African Affairs* 100 (399):287-309.
- Metcalf, Lee Kendall. 1997. The (Re)Emergence of Regional Economic Integration in the Former Soviet Union. *Political Research Quarterly* 50 (3):529-549.
- Midlarsky, Manus I. 1998. Democracy and Islam: Implications for Civilizational Conflict and the Democratic Peace. *International Studies Quarterly* 42 (3):485-511.
- Mikesell, Raymond F. 1997. Explaining the resource curse, with specific reference to mineral exporting countries. *Resource's policy* 23 (4):191-99.
- Miller, Arthur H., Vicki L. Hesli, and William M. Reisinger. 1994. Reassessing Mass Support for Political and Economic Change in the Former USSR. *The American Political Science Review* 88 (2):399-411.
- Miller, Steven M., Stephen Van Evera, and Sean M. Lynn-Jones. 1990. *Nuclear diplomacy and crisis management, International security readers*. Cambridge: MIT Press.
- Milner, Helen V. 1997. *Interests, institutions, and information : domestic politics and international relations, Princeton paperbacks*. Princeton, N.J.: Princeton University Press.
- Mishin, Vladimir. 1999. Investitsionniy Klimat Azerbaidzana v Argumentakh i Faktakh Opponentov (The Investment Climate in Azerbaijan Through the Arguments and Facts of Opponents - in Russian). *Neft' Rossii* (5), <http://www.oilru.com/nr/53/108/oilru.com>.
- Mishler, William, and Richard Rose. 1997. Trust, Distrust and Skepticism: Popular Evaluations of Civil and Political Institutions in Post-Communist Societies. *Journal of Politics* 59 (2):418-451.
- . 2001. What Are the Origins of Political Trust? *Comparative Political Studies* 34 (1):30-62.
- Mitofsky, Warren, and Joe Lenski. 2005. Adventure In Baku: Exit-Polling Azerbaijan. In *A Public Opinion Pros Special Report*. Washington, DC: The National Council on Public Polls.
- Moore, Barrington. 1967. *Social origins of dictatorship and democracy : lord and peasant in the making of the modern world*. London: Allen Lane, the Penguin Press.
- Moore, Clement Henry 1976. Petroleum and Political Development in the Maghreb. In *Arab Oil: Impact on the Arab Countries and Global Implications*, edited by N. A. Sherbiny and M. A. Tessler. New York: Praeger.
- Morrison, K. M. 2009. Oil, Nontax Revenue, and the Redistributive Foundations of Regime Stability. *International Organization* 63 (1):107-138.
- Morrison, Kevin. 2005. Oil, Non-Tax Revenue, and Regime Stability: The Political Resource Curse Reexamined. In *Harvard University Comparative Political Economy Workshop*.
- . 2007. Natural resources, aid, and democratization: A best-case scenario. *Public Choice* 131 (3):365-386.

- Mortished, Carl. 1993. Azerbaijan wins new oil deal. *The Times*, November 2.
- Munck, Gerardo L. 2004. Tools for Qualitative Research. In *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- . 2009. *Measuring democracy : a bridge between scholarship and politics*. Baltimore: Johns Hopkins University Press.
- Musabekov, Rasim. 2000. Rossiya - Azerbaidzan: Slova i Dela (Russia-Azerbaijan: Words and Deeds). *Tsentral'naya Aziya i Kavkaz* 3 (9).
- Najman, Boris, Richard Pomfret, Gael Raballand, and Patricia Sourdin. 2005. How are Oil Revenues redistributed in an Oil Economy? The case of Kazakhstan. In *Working Paper 2005-18*: University of Adelaide, School of Economics.
- Nassibli, Nasib. 1998. The Independent Azerbaijan's Oil Policy. In *Lecture Series*. Berkeley, CA: University of California at Berkeley.
- National Research Council. 1992. *Combining Information: Statistical Issues and Opportunities for Research*. Washington, D.C.: National Academy Press.
- Nazarbayev, Nursultan. 1997. Kazakhstan—2030. Protsvetanie, Bezopasnost' i Uluchshenie Blagosostoianiia Vsekh Kazakhstantsev. *Kazakhstanskaia Pravda*, October 11.
- Nelson, Jon, and Peter Kennedy. 2009. The Use (and Abuse) of Meta-Analysis in Environmental and Natural Resource Economics: An Assessment. *Environmental and Resource Economics* 42 (3):345-377.
- Neto, Octavio Amorim, and Hugo Borsani. 2004. Presidents and cabinets: The political determinants of fiscal behavior in Latin America. *Studies in Comparative International Development (SCID)* 39 (1):3-27.
- Newcity, Michael. 1990. Perestroika, Private Enterprise and Soviet Tax Policy. *Columbia Journal of Transnational Law* 28:225-252.
- . 1991. Tax Considerations in Foreign Trade and Investment in the USSR; . *Vanderbilt Journal of Transnational Law* 24:235-267.
- Nijkamp, Peter, and Jacques Poot. 2004. Meta-analysis of the effect of fiscal policies on long-run growth. *European Journal of Political Economy* 20 (1):91-124.
- Nodia, Ghia. 2002. The Democratic Path. *Journal of Democracy* 13 (3):13-19.
- Nohlen, Dieter, Florian Grotz, and Christof Hartmann. 2001. *Elections in Asia and the Pacific: A Data Handbook* Vol. 1. Oxford: Oxford University Press.
- Noland, Marcus. 2008. Explaining Middle Eastern Political Authoritarianism I: The Level of Democracy. *Review of Middle East Economics and Finance* 4 (1).
- Norris, Pippa, R. K. Carty, Lynda Erickson, Joni Lovenduski, and Marian Simms. 1990. Party Selectorates in Australia, Britain and Canada: Prolegomena for Research in the 1990s. *The Journal of Commonwealth & Comparative Politics* 28 (2):219-245.
- O'Donnell, Guillermo, Philippe C. Schmitter, and Laurence Whitehead. 1986. *Transitions from authoritarian rule. Tentative conclusions about uncertain democracies*. Baltimore: Johns Hopkins University Press.
- Observer, The. 2004. The Man Who Would Be King. *The Observer*, 10 October.
- Ochs, Michael. 1997. Turkmenistan: The Quest for Stability and Control. In *Conflict, Cleavage and Change in Central Asia and the Caucasus*, edited by K. Dawisha and B. Parrott. Cambridge: Cambridge University Press.

- Okruhlik, Gwenn. 1999. Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States. *Comparative Politics* 31 (3):295-315.
- Olcott, Martha Brill. 1996. *Central Asia's new states : independence, foreign policy, and regional security*. Washington: United States Institute of Peace Press.
- . 1997. Democratization and the Growth of Political Participation in Kazakhstan. In *Conflict, Cleavage and Change in Central Asia and the Caucasus*, edited by K. Dawisha and B. Parrott. Cambridge: Cambridge University Press.
- . 2002. *Kazakhstan : unfulfilled promise*. Washington, D.C.: Carnegie Endowment for International Peace.
- Olson, Mancur. 2000. *Power and prosperity : outgrowing communist and capitalist dictatorships*. New York: Basic Books.
- Orent, Wendy. 2004. Turkmenistan: An "Illegal" Outbreak of Plague. *Los Angeles Times*, 8 August.
- OSCE. 1995. Report on Parliamentary Elections in Kazakhstan: Parliamentary Assembly of the Organization for Security and Co-operation in Europe.
- Oskarsson, Sven, and Eric Ottosen. 2009. Does Oil Still Hinder Democracy? *Journal of Development Studies* 46 (6):1067-1083.
- Ozodi, Devlet. 2009. *Ashkhabad: Retsepty i Projekty (Ashkhabad: Prescriptions and Projects)* (12 September). Gundogar 2008 [cited November 5 2009]. Available from <http://www.gundogar.org/?o18000000000000000000000000000000>.
- Panchenko, Tatyana. 2010. Yedinoy Tsepyu Vsyu Stranoy (One Chain for the Whole Country). *Golos Respubliki*, July 9.
- Pannier, Bruce. 2004. Turkmenistan: Flag Day Marked as President Prepares to Show 'Real Turkmenistan' to the World. *Radio Free Europe/Radio Liberty*, February 19.
- . 2006. Kazakhstan: Zheltoqsan Protest Marked 20 Years Later. *Radio Free Europe/Radio Liberty* (December 14), <http://www.rferl.org/content/article/1073453.html>.
- . 2010. *Turkmenistan's 'Gray Cardinal' Leaves Government*. Radio Free Europe/Radio Liberty 2009 [cited March 2 2010]. Available from <http://www.gundogar.org/?o22004728500000000000000000000000>.
- Papayrakis, Elissaios, and Reyer Gerlagh. 2004. The resource curse hypothesis and its transmission channels. *Journal of Comparative Economics* 32 (1):181-193.
- Paterson, Peter. 1967. *The Selectorate: The Case for Primary Elections in Britain*. London: Macgibbon and Kea.
- Pegg, Scott. 2006. Can policy intervention beat the resource curse? Evidence from the Chadâ€“Cameroon pipeline project. *African Affairs* 105 (418):1-25.
- Penketh, Anne. 2007. After Nazarbayev: The dictator, his daughter, and a dynasty at war. *The Independent*, 30 May.
- Petersen, Alexandros, and Taleh Ziyadov. 2007. Azerbaijan and Georgia: Playing Russian Roulette with Moscow. *Central Asia-Caucasus Institute Analyst*.
- Petri, Martin, and Gunther Taube. 2003. Fiscal Policy beyond the Budget: Quasi-Fiscal Activities in the Energy Sectors of the Former Soviet Union. *Emerging Markets Finance and Trade* 39 (1):24-42.
- Peyrouse, Sébastien. 2007. Nationhood and the Minority Question in Central Asia. The Russians in Kazakhstan. *Europe-Asia Studies* 59 (3):481-501.

- Pierson, Paul. 2000. Increasing Returns, Path Dependence, and the Study of Politics. *American Political Science Review* 94 (2):251-267.
- Pipes, Daniel. 1996. Muslim Exceptionalism. In *92nd Annual Meeting of the American Political Science Association*. San Francisco, CA.
- Plastina, Armelle Gruère and Alejandro. 2010. Outlook for World Cotton Supply and Use: Tight Stocks & Higher Prices. In *69th Plenary Meeting of the International Cotton Advisory Committee*. Washington, DC.
- Poltayeva, Gulya. 2006. Niyazov Saparmurat Atayevich - Biograficheskaya spravka (Niyazov Saparmurat Atayevich - Biographical note). *Turkmenskaya iskra*, April 4.
- Pomfret, Richard. 2001. Turkmenistan: From Communism to Nationalism by Gradual Economic Reform. *MOCT-MOST: Economic Policy in Transitional Economies* 11 (2):165-176.
- . 2005. Kazakhstan's Economy since Independence: Does the Oil Boom offer a Second Chance for Sustainable Development? *Europe-Asia Studies* 57 (6):859-876.
- . 2006. Will Oil Be a Blessing or a Curse for Kazakhstan? In *British Association for Slavonic and East European Studies (BASEES) conference*. Cambridge, UK.
- Posusney, M. P. 2004. Enduring authoritarianism - Middle East lessons for comparative theory. *Comparative Politics* 36 (2):127-+.
- Przeworski, Adam. 1991. *Democracy and the market : political and economic reforms in Eastern Europe and Latin America, Studies in rationality and social change*. Cambridge: Cambridge University Press.
- Przeworski, Adam, Michael E. Alvarez, Jose Cheibub, and Fernando Limongi. 2000. *Democracy and development : political institutions and material well-being in the world, 1950-1990*. Cambridge: Cambridge University Press.
- Przeworski, Adam, and Henry Teune. 1970. *The logic of comparative social inquiry, Comparative studies in behavioral science*. New York: Wiley.
- Rabushka, Alvin, and Kenneth A. Shepsle. 1972. *Politics in plural societies : a theory of democratic instability, Merrill political science series*. Columbus, Ohio: Merrill.
- Rachenkov, Yevgeniy. 2009. Abylay Myrzakhmetov: "Nalogi v Kazakhstane mozhno in nuzhno snizit". *Zakon.kz* 2005 [cited 10 November 2009]. Available from <http://www.zakon.kz/64859-abylajj-myrzakhmetov-nalogi-v.html>.
- Radnitz, Scott. 2006. What really happened in Kyrgyzstan? *Journal of Democracy* 17 (2):132-146.
- Ragin, Charles. 2004. Turning the Tables: How Case-Oriented Research Challenges Variable-Oriented Research. In *Rethinking social inquiry : diverse tools, shared standards*, edited by H. E. Brady and D. Collier. Lanham, Md.: Rowman & Littlefield.
- Ragin, Charles C. 1987. *The comparative method : moving beyond qualitative and quantitative strategies*. Berkeley ; London: University of California Press.
- Ramos, Alberto. 1998. Government Expenditure Arrears - Securitization and Other Solutions. Washington, DC: International Monetary Fund.
- Ramsay, Kristopher W. 2006. Natural Disasters, the Price of Oil, and Democracy. Princeton: Princeton University.
- Razgulyayev, Yuriy. 1994. Askar Akayev talks beautifully (Askar Akayev govorit krasivo - in Russian). *Pravda*, 29 April.

- Rechel, B, L Shapo, and M McKee. 2004. WHO Health for All Database, January 2007. *Millennium Development Goals for Health in Europe and Central Asia. Relevance and Policy Implications - World Bank Working Paper No. 33.*
- Rechel, Bernd, and Martin McKee. 2007. The effects of dictatorship on health: the case of Turkmenistan. *BMC Medicine* 5 (1):21.
- Redden, Jack. 1988. Communist Party leaders sacked in Armenia, Azerbaijan. *United Press International*.
- Reed Johnson, F., Erin E. Fries, and H. Spencer Banzhaf. 1997. Valuing morbidity: An integration of the willingness-to-pay and health-status index literatures. *Journal of Health Economics* 16 (6):641-665.
- Remington, Thomas F., and Steven S. Smith. 1996. Political Goals, Institutional Context, and the Choice of an Electoral System: The Russian Parliamentary Election Law. *American Journal of Political Science* 40 (4):1253-1279.
- Reporters Without Borders. 2006. Worldwide Press Freedom Index Paris: Reporters Without Borders.
- Republic of Kazakhstan. 1995. The Constitution of the Republic of Kazakhstan.
- . 1998. The Law on Taxes and Other Mandatory Payments to the Budget ("O Nalogakh i Drugikh Obyazatel'nykh Platezakh v Byudjet"), edited by R. o. Kazakhstan.
- Reuters. 1989. Up to 600,000 protest at rally in Azerbaijan. *Reuters*, August 20.
- RFE/RL. 2004. News Briefs From and About Turkmenistan. *Radio Free Europe/Radio Liberty*, 12 January.
- . 2004. Turkmenistan: Hidden Resurgence of Plague Threatens. *Radio Free Europe/Radio Liberty*, 30 June.
- . 2006. UN, OSCE Bolster Turkmenistan's Anti-Trafficking Battle. *Radio Free Europe/Radio Liberty*, 15 February.
- . 2009. *Azerbaijani Parliament Proposes Scrapping Presidential Term Limits* 2008 [cited April 3 2009]. Available from http://www.eng.zpress.kg/news/news_only/5/303.py.
- . 2009. Azerbaijanis Pass Controversial Proposal To Scrap Presidential Term Limits. *Radio Free Europe/Radio Liberty*, http://www.rferl.org/content/Azerbaijanis_Vote_On_Controversial_Proposal_To_Scrap_Presidential_Term_Limits/1512634.html.
- . 2009. *Former Kazakh Environment Minister Arrested For Embezzlement* (March 30). *Radio Free Europe/Radio Liberty* 2009 [cited June 20 2009]. Available from http://www.rferl.org/content/former_kazakh_environment_minister_arrested_for_embezzlement/1564630.html.
- . 2009. *Kazakh Uranium Magnate Charged With Corruption*. *Radio Free Europe/Radio Liberty* 2009 [cited December 10 2009]. Available from http://www.rferl.org/content/Kazakh_Uranium_Magnate_Charged_With_Corruption/1900718.html.
- . 2009. *Turkmenistan Redenominates Currency, Further Dismantles Niyazov Personality Cult* (20 April). *Radio Free Europe/Radio Liberty* 2009 [cited 20 April 2009]. Available from <http://www.gundogar.org>.
- . 2010. *Further Demonstrations In Kyrgyzstan* (7 April). *Radio Free Europe/Radio Liberty* 2010 [cited 7 April 2010]. Available from

- http://www.rferl.org/content/Kyrgyz_Protesters_Occupy_Regional_Government_Office/2003769.html.
- . 2010. *Opposition Forces In Kyrgyzstan Claim Power, Form Interim Government* (7 April). Radio Free Europe/Radio Liberty 2010 [cited 7 April 2010]. Available from http://www.rferl.org/content/Opposition_Protesters_March_Across_Kyrgyzstan/2004868.html.
- Riker, William H. 1962. *The theory of political coalitions*. New Haven: Yale University Press.
- Robinson, James A., Ragnar Torvik, and Thierry Verdier. 2006. Political foundations of the resource curse. *Journal of Development Economics* 79 (2):447-468.
- Robinson, James, and Thierry Verdier. 2003. The Political Economy of Clientelism. *CEPR Discussion Paper No. 3205*. Available at SSRN: <http://ssrn.com/abstract=303185>.
- Roeder, Philip G. 1993. *Red sunset : the failure of Soviet politics*. Princeton, N.J.: Princeton University Press.
- Rona-Tas, Akos. 1994. The First Shall Be Last? Entrepreneurship and Communist Cadres in the Transition from Socialism. *The American Journal of Sociology* 100 (1):40-69.
- Roscoe, Douglas D., and Shannon Jenkins. 2005. A Meta-Analysis of Campaign Contributions' Impact on Roll Call Voting. *Social Science Quarterly (Blackwell Publishing Limited)* 86 (1):52-68.
- Rose, Richard. 2002. How Muslims view democracy: Evidence from Central Asia. *Journal of Democracy* 13 (4).
- Rosenberg, Christoph, and Tapio Saavalainen. 1998. How to Deal with Azerbaijan's Oil Boom? In *IMF Working Paper*. Washington, DC: International Monetary Fund.
- Ross, Michael L. 2001. Does Oil Hinder Democracy? *World Politics* 53 (3):325-361.
- . 2001. *Timber Booms and Institutional Breakdown in Southeast Asia, Political economy of institutions and decisions*. Cambridge, UK, New York: Cambridge University Press.
- . 2004. Does Taxation Lead to Representation? *British Journal of Political Science* 34 (02):229-249.
- . 2008. Oil, Islam, and Women. *American Political Science Review* 102 (01):107-123.
- . 2009. Oil and Democracy Revisited. *Working Paper*, UCLA Department of Political Science, Los Angeles, CA.
- Rosser, Andrew. 2007. Escaping the Resource Curse: The Case of Indonesia. *Journal of Contemporary Asia* 37 (1):38-58.
- Roubini, Nouriel, and Jeffrey Sachs. 1989. Government Spending and Budget Deficits in the Industrial Economies. *National Bureau of Economic Research Working Paper Series* 2919.
- Roubini, Nouriel, and Jeffrey D. Sachs. 1989. Political and economic determinants of budget deficits in the industrial democracies. *European Economic Review* 33 (5):903-933.
- Roy, Olivier. 2000. *The new Central Asia : the creation of nations*. New York: New York University Press.
- Rueschemeyer, Dietrich, Evelyn Huber, and John D. Stephens. 1991. *Capitalist development and democracy*. Cambridge: Polity Press.
- Rustow, Dankwart. 1970. Transitions to Democracy: Toward a Comparative Model. *Comparative Politics* 2 (3):337-63.

- Ryabkov, Maxim. 2008. The north-south cleavage and political support in Kyrgyzstan. *Central Asian Survey* 27 (3-4):301-316.
- Ryabushkin, Alexander. 1992. Kirgizstan Prosit o Pomoschi (Kyrgyzstan Asks For Help - in Russian). *Izvestiya*, May 23, 2.
- Sabonis-Helf, Theresa. 2004. The Rise of the Post-Soviet Petro-States: Energy Exports and Domestic Governance in Turkmenistan and Kazakhstan In *In the Tracks of Tamerlane: Central Asia's Path to the 21st Century*, edited by D. L. B. a. T. Sabonis-Helf. Washington, DC: NDU Press.
- Sachs, Jeffrey D., and Andrew M. Warner. 2001. The curse of natural resources. *European Economic Review* 45 (4-6):827-838.
- Saideman, Stephen M. 2002. Discrimination in International Relations: Analyzing External Support for Ethnic Groups. *Journal of Peace Research* 39 (1):27-50.
- Sammakia, Nejla. 1993. Rebels Tighten Grip on Azerbaijan, Russia Accused of Meddling. *The Associated Press*, June 24.
- Sandbu, Martin E. 2006. Natural Wealth Accounts: A Proposal for Alleviating the Natural Resource Curse. *World Development* 34 (7):1153-1170.
- Schatz, Edward. 2004. *Modern clan politics : the power of "blood" in Kazakhstan and beyond*, Jackson School publications in international studies. Seattle: University of Washington Press.
- . 2006. Access by Accident: Legitimacy Claims and Democracy Promotion in Authoritarian Central Asia. *International Political Science Review / Revue internationale de science politique* 27 (3):263-284.
- . 2009. *Political ethnography : what immersion contributes to the study of power*. Chicago: University of Chicago Press.
- Schmitter, Philippe C. 2009. The Nature and Future of Comparative Politics. *European Political Science Review* 1 (1):33-61.
- Schmitter, Philippe C., and Terry Lynn Karl. 1991. What Democracy Is. . . and Is Not. *Journal of Democracy* 2 (3):75-88, Project MUSE. Web. 21 Jan. 2011. <<http://muse.jhu.edu/>>.
- Schneider, Friedrich. 2003. The Development of the Shadow Economies and Shadow Labour Force of 21 OECD and 22 Transition Countries. *DICE* 1 (1):17-23.
- Selskaya Zhizn. 1994. Agriculture minister sacked (Minister Sel'skogo Khozyaystva Otpavlenn v Otskavku). *Selskaya Zhizn*.
- Seregin, Pavel. 1992. Rojdenie Natsii (The Birth of a Nation - in Russian). *Vek XX i Mir* 2:24-31.
- Seyidagha, Etibar. 2009. Surət Hüseynova Vəzifə Verilməsi Təklifini Mən İrəli Sürmüşəm (I Suggested Appointing Surat Huseynov - in Azerbaijani). *Yeni Musavat*, May 15.
- Seyidov, Rustam. 2006. The Post-Election Situation: Who Rules Azerbaijan? In *The Battle for Azerbaijan: Azeri Perspectives on the Observation of the 2005 Parliamentary Elections and the Post-Election Period*, edited by S. Torjesen and I. Øverland. Oslo: Norwegian Institute of International Affairs.
- Shafer, D. Michael. 1994. *Winners and losers : how sectors shape the developmental prospects of states*, Cornell studies in political economy. Ithaca: Cornell University Press.
- Shambayati, Hootan. 1994. The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran. *Comparative Politics* 26 (3):307-331.

- Shepsle, Kenneth A. 1979. Institutional Arrangements and Equilibrium in Multidimensional Voting Models. *American Journal of Political Science* 23 (1):27-59.
- . 2008. Rational Choice Institutionalism. In *Oxford Handbook of Political Institutions*, edited by R.A.W. Rhodes, S. Binder and B. Rockman. Oxford: Oxford University Press.
- Sherbiny, Naiem A., and Mark A. Tessler, eds. 1976. *Arab Oil: Impact on the Arab Countries and Global Implications*. New York: Praeger.
- Shermatova, Sanmobar. 1995. Protestors March in Turkmenistan. *Moscow News*, July 28.
- Shermatova, Sanobar. 1994. Turkmenbashi remains President till the year 2002. *Moscow News*, January 24.
- Shikhmuradov, Boris. 1997. Positive Neutrality As the Basis of the Foreign Policy of Turkmenistan. *Perceptions, Journal of International Affairs* 2 (June-August).
- . 2002. Kto, Gde, Kogda i Kak Eto Bylo? Vospominaniya (Who, Where, When and How It Was? Memoirs) (in Russian). *Gundogar* (5 March), <http://www.gundogar.com>.
- . 2006. Turkmenskiy Faktor: Ugrozy real'niye i mnimiye (Turkmen factor: Real and Perceived Threats) (in Russian). *Gundogar* (11 September), <http://www.gundogar.com>.
- Shir, Jan. 2006. Rossiyskiy Vektor Vneshney Politiki Turkmenistana (The Russian Vector of Turkmenistan's Foreign Policy). *Tsentral'naya Aziya i Kavkaz* 4 (40).
- Shirk, Susan L. 1993. *The Political Logic of Economic Reform in China, California series on social choice and political economy*. Berkeley: University of California Press.
- Silk Road Intelligencer. 2010. *Kazakhstan Creates New Oil and Gas Ministry in a Major Government Reshuffle*. Silk Road Intelligencer 2010 [cited April 20 2010]. Available from <http://silkroadintelligencer.com/2010/03/15/kazakhstan-creates-new-oil-and-gas-ministry-in-a-major-government-reshuffle/>.
- Simon, Herbert A. 1982. *Models of bounded rationality*. Cambridge, Mass.: MIT Press.
- SIPRI. 2011. The SIPRI Military Expenditure Database: Stockholm International Peace Research Institute.
- Skocpol, Theda. 1979. *States and social revolutions : a comparative analysis of France, Russia and China*. Cambridge: Cambridge University Press.
- . 1982. Rentier state and Shi'a Islam in the Iranian Revolution. *Theory and Society* 11 (3):265-283.
- Slovo Kyrgyzstana. 1992. Decree by the president of the Republic of Kyrgyzstan on councils under the president of the Republic of Kyrgyzstan *Slovo Kyrgyzstana*, 21 August.
- Smart, Mike. 2009. Natural Resource Diversity and Democracy. *Economic Papers* 28 (4):366-375.
- Smith, Alastair. 2008. The Perils of Unearned Income. *The Journal of Politics* 70:780-793.
- Smith, Benjamin. 2004. Oil Wealth and Regime Survival in the Developing World, 1960-1999. *American Journal of Political Science* 48 (2):232-246.
- . 2006. The Wrong Kind of Crisis: Why Oil Booms and Busts Rarely Lead to Authoritarian Breakdown. *Studies in Comparative International Development (SCID)* 40 (4):55-76.
- . 2007. *Hard Times in the Land of Plenty*. Ithaca: Cornell University Press.

- Smith, Benjamin, and Joseph Kraus. 2005. Democracy Despite Oil: Transition and Consolidation in Latin America and Africa: Department of Political Science, University of Florida.
- Sneider, Daniel. 1991. Change Comes Slowly to Kirghizia. *Christian Science Monitor* January 10.
- Snyder, Richard. 1998. Paths out of Sultanistic Regimes: Combining Structural and Voluntarist Perspectives. In *Sultanistic Regimes*, edited by H.E.Chehabi and J. J. Linz. Baltimore, MD and London: The Johns Hopkins University Press.
- Snyder, Richard, and Ravi Bhavnani. 2005. Diamonds, Blood, and Taxes. *Journal of Conflict Resolution* 49 (4):563-597.
- Solzhenitsyn, Aleksandr. 1990. How We Should Rebuild Russia (Kak Nam Obustroit' Rossiyu – in Russian). *Komsomol'skaya Pravda*, 18 September.
- Sovet Turkmenistany. 1988. Personnel Changes at Turkmen Supreme Soviet Session. *Sovet Turkmenistany*, 14 August.
- . 1988. Turkmen Central Committee members dismissed for "serious shortcomings". *Sovet Turkmenistany*, 27 December.
- Sovetskaya Kirgiziya. 1989. Projekt Zakona o Gosuderstvennom Yazike Kirgizskoy SSR (Draft Law on State Language of Kyrgyz SSR - in Russian). *Sovetskaya Kirgiziya*, 18 August.
- Spector, Regine A. 2004. The Transformation of Askar Akaev, President of Kyrgyzstan. In *Working Paper Series: Berkeley Program in Soviet and Post-Soviet Studies*, University of California, Berkeley.
- Stanley, T. D. 2001. Wheat from Chaff: Meta-Analysis as Quantitative Literature Review. *The Journal of Economic Perspectives* 15 (3):131-150.
- Stepanyan, Vahram. 2003. Reforming Tax Systems: Experience of the Baltics, Russia, and Other Countries of the Former Soviet Union. Washington, DC: International Monetary Fund.
- Stevens, Paul, and Evelyn Dietsche. 2008. Resource curse: An analysis of causes, experiences and possible ways forward. *Energy Policy* 36 (1):56-65.
- Suny, Ronald Grigor, ed. 1996. *Transcaucasia, nationalism and social change : essays in the history of Armenia, Azerbaijan, and Georgia*. Rev. ed. Ann Arbor: University of Michigan Press.
- Tagliabue, John. 2000. Kazakhstan Is Suspected Of Oil Bribes In the Millions. *The New York Times*, July 28.
- Tansey, Oisín. 2007. Process Tracing and Elite Interviewing: A Case for Non-probability Sampling. *PS: Political Science & Politics* 40 (4):765-772.
- Tanzi, Vito, and George C. Tsibouris. 2000. Fiscal Reform Over Ten Years of Transition. Washington, DC: International Monetary Fund.
- TASS. 1987. Communique on CPSU Central Committee Plenum. *TASS*, October 23.
- . 1990. State of Emergency Introduced on Uzbek-Kirghiz Border. *TASS*, June 11.
- . 1991. Azerbaijani national council formed. *TASS*, October 30.
- Taubman, Philip. 1988. Soviet Reports a Major Oil Center In Azerbaijan Is Shaken by Riots. *The New York Times*, March 1.
- Team, United Nations Country. 2004. United Nations Development Assistance Framework (UNDAF) 2005-2009. *Ashgabat*.

- The Associated Press. 1982. Aliev's Replacement Named. *The Associated Press*, December 3.
- . 1990. Fatal Clash in Border Town Between Kirghiz, Uzbeks. *The Associated Press*, June 5.
- . 1991. Strong Quake Hits Kirgizia Province, Tass Says. *The Associated Press*, November 6.
- . 1992. 7.5 Quake Hits Former Soviet Republic. *The Associated Press*, August 19.
- . 1994. Rebellion Spreads; Azerbaijani President Urges Resistance. *The Associated Press*, October 4.
- . 1994. Western Companies Sign Landmark Oil Contract. *The Associated Press*, September 20.
- The Guardian. 2007. Turkmenistan Votes to Replace Dictator. *The Guardian*, 12 February.
- Thelen, Kathleen. 1999. Historical Institutionalism in Comparative Politics. *The Annual Review of Political Science* 2:369-404.
- Thoenes, Sander. 1996 Kazakhstan's sale of the century. *Financial Times*, October 25.
- Tilly, Charles. 1978. *From Mobilization to Revolution*. New York: McGraw-Hill.
- . 1984. *Big Structures, Large Processes, Huge Comparisons, Russell Sage Foundation 75th anniversary series*. New York: Russell Sage Foundation.
- . 1988. Future History. *Theory and Society* 17 (5):703-712.
- Tilly, Charles, and Gabriel Ardant. 1975. *The Formation of national States in Western Europe, Studies in political development* ; 8. Princeton, N.J: Princeton University Press.
- Times, The. 2004. And the Prize for the Greatest Megalomaniac in the World Goes to... You Know the Name. 31 May.
- Tompson, William. 2005. The Political Implications of Russia's Resource-Based Economy. *Post-Soviet Affairs* 21 (4):335-359.
- . 2005. The Political Implications of Russia's Resource-Based Economy. *Post Soviet Affairs* 21 (4):335-359.
- Törnquist, Olle. 1990. Rent Capitalism, State, and Democracy: A Theoretical Proposition. Paper read at State and Civil Society in Indonesia.
- Treisman, Daniel. 2007. What Have We Learned About the Causes of Corruption from Ten Years of Cross-National Empirical Research? In *Annual Review of Political Science*.
- Trend News. 2009. *ATƏT sədri Azərbaycan QHT haqqında qanuna edilən son dəyişiklikləri bəyanir (The OSCE Chairman Commends Latest Changes to NGO Law)*. Trend 2009 [cited September 5 2009]. Available from <http://az.trend.az/news/politics/foreign/1497688.html>.
- Trushin, Yevgeniy. 2005. Drojji dlya Diktatora (Yeast for Dictator). *Moskovskiy Komsomolets*, 12 July.
- Tsui, Kevin. 2007. More oil, less democracy? Evidence from worldwide crude oil discoveries. Chicago: University of Chicago.
- Tsui, Kevin K. 2010. Resource Curse, Political Entry, and Deadweight Costs. *Economics & Politics* 22 (3):471-497.
- TURAN. 1993. Russian energy minister in Azerbaijan. *TURAN news agency*, November 19.
- Turan. 1994. Two senior officials killed in "acts of terror". *Turan news agency*, 30 September.
- Turkmenbashi, Saparmurat. 2004. *Ruhnama (Book of the Soul - in Turkmen)*. Ashgabat.

- TurkmenInform. 2010. *V Turkmenistane Doljna Poyavitsya Novaya Partiya (A New Party Should Appear in Turkmenistan)* (February 19). TurkmenInform 2010 [cited March 5, 2010]. Available from <http://www.turkmeninform.com/ru/news/20100219/02288.html>.
- Turkmenistan. 1994. New Oil and Gas Minister Named (Naznachen Noviy Minister Neftyanoy i Gazovoy Promyshlennosti - in Russian). *Turkmenistan*, November 19.
- Turkmenistan Project. 2004. Certain Diseases "Banned" in Turkmenistan. *Turkmenistan Project*, 8 May.
- Turkmenistan.ru. 2004. Turetskaia kompania postroit v Ashgabade novoe zdanie Minizdrava stoimustiu 12 mln. doll. SShA [Turkish company to build new US\$12 million building for the Ministry of Health in Ashgabat]. *Turkmenistan.ru*, 7 April.
- . 2010. *V Turkmenistane Rassmotren Proyeckt Gosudarstvennogo Byudjeta (The Draft State Budget Was Considered in Turkmenistan)* (November 16). Turkmenistan.ru 2009 [cited February 5 2010]. Available from http://www.gundogar.org/?topic_id=25;year=2009;month=11#8702.
- Turkmenskaya Iskra. 1989. Conference Discusses Shortcomings of Turkmen SSR MVD. *Turkmenskaya Iskra*, 25 January.
- Tursunkulova, Bermet. 2008. The power of precedent? *Central Asian Survey* 27 (3-4):349-362.
- Ukiwo, U. 2003. Politics, ethno-religious conflicts and democratic consolidation in Nigeria. *Journal of Modern African Studies* 41 (1):115-138.
- Ulfelder, Jay. 2007. Natural-Resource Wealth and the Survival of Autocracy. *Comparative Political Studies* 40 (8):995-1018.
- UNCTAD. 2010. Foreign Direct Investment database: UNCTAD.
- United Nations Statistical Division. 2006. Standard International Trade Classification (SITC), Revision 4: United Nations Statistical Division.
- United Press International. 1988. Soviet Armenians demand shift to another republic. *United Press International*, February 23.
- . 1993. Elchibey gets vote of no-confidence in Azeri referendum. *United Press International*, August 30.
- . 1994. Kyrgyz leader moves to slow Slavic migration. *United Press International*, June 14.
- . 1994. Kyrgyzstan bans anti-government paper. *United Press International*, August 19.
- UNODC. 2006. UN Press Release SOC/NAR/891: Narcotics Control Board Concerned about Failure of Turkmenistan to Cooperate With International Community in Fight Against Illicit Drugs, 3 March 2004. *Milestones. Issue 3, April 2006*.
- UPI. 1996. Western group to buy Kazakh gold mine. *United Press International*, July 6.
- US Department of State. 1993. Azerbaijan Human Rights Practices, 1992, edited by U. D. o. State.
- . 1999. Country Commercial Guides FY 1999: Turkmenistan http://www.state.gov/www/about_state/business/com_guides/1999/europe/turkmen99.html.

- US State Department. 2005. Country Report on Human Rights Practices: Turkmenistan. Washington, DC: Bureau of Democracy, Human Rights, and Labor, US State Department.
- USAID. 2003. Final Report on HIV/AIDS Prevention Projects in Turkmenistan, October 2002 to November 2003.
- USSR State Statistics Committee. 1984. *Chislennost' i sostav naseleniia SSSR : po dannym Vsesoiuznoi perepisi naseleniia 1979 goda*. Moskva: Finansy i statistika.
- . 1992. *Itogi Vsesoiuznoi perepisi naseleniia 1989 goda (The Results of All-Union Population Census 1989)*. Minneapolis, MN: East View Publications.
- Valiyev, Anar. 2005. Parliamentary elections in Azerbaijan - A failed revolution. *Problems of Post-Communism* 53 (3).
- Van Evera, Stephen. 1997. *Guide to methods for students of political science*. Ithaca: Cornell University Press.
- . 1999. *Causes of war : power and the roots of conflict, Cornell studies in security affairs*. Ithaca, N.Y. ; London: Cornell University Press.
- Vandewalle, Dirk. 1987. Political Aspects of State Building in Rentier Economies: Algeria and Libya Compared. In *The Rentier State*, edited by H. Beblawi and G. Luciani. London: Croom Helm.
- . 1998. *Libya since Independence: Oil and State-Building*. Ithaca, N.Y.: Cornell University Press.
- Vasilyeva, Olga. 1997. Respubliki vo Vremya Putcha (Republics During the Putsh). *Russkiy Jurnal (The Russian Journal)*.
- Volkov, M. 1987. Preodolevaya inertsiiu: kommunisty obsujdayut resheniya iyun'skogo plenuma Tsentral'nogo Komiteta KPSS (Overcoming inertia; communists discuss the resolutions of the CPSU Central Committee June plenum - in Russian). *Pravda*, 16 August.
- . 1991. Turkmenistan na "Grani Bankrotstva" (Turkmenistan "Reduced to Bankruptcy" - in Russian). *Pravda*, 17 September.
- Volkov, Mikhail. 1993. No More Russian Troops In Turkmenistan. *Pravda*, September 3.
- Volkov, Vitaliy, and Oraz Sariyev. 2005. Fokusy Neytraliteta (Tricks of Neutrality - in Russian). *Gundogar* (12 December), <http://www.gundogar.com>.
- Vremya. 1988. News/Current Events. USSR.
- Walker, Martin. 1985. Azerbaijan's grapes of wrath: Wine making in Soviet muslim republic. *The Guardian*, October 31.
- Wantchekon, Leonard. 2000. Why do Resource Dependent Countries Have Authoritarian Governments?: Yale University.
- Waterbury, John. 1994. Democracy without Democrats? The Potential for Political Liberalization in the Middle East. In *Democracy Without Democrats?: The Renewal of Politics in the Muslim World*, edited by G. Salamé. New York: I. B. Tauris.
- Way, Lucan A., and Steven Levitsky. 2006. The dynamics of autocratic coercion after the Cold War. *Communist and Post-Communist Studies* 39 (3):387-410.
- Weingast, Barry R., Kenneth A. Shepsle, and Christopher Johnsen. 1981. The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics. *The Journal of Political Economy* 89 (4):642-664.

- Weinthal, Erika. 1998. Making or Breaking the State? Building Institutions for Regional Cooperation in the Aral Sea Basin, Unpublished doctoral dissertation, Columbia University, New York, NY.
- Weinthal, Erika, and Pauline Jones Luong. 2001. Energy wealth and tax reform in Russia and Kazakhstan *Resources Policy* 27 (4):215-223.
- Welsh, David. 1993. Domestic Politics and Ethnic Conflict. In *Ethnic Conflict and International Security*, edited by M. E. Brown. Princeton: Princeton University Press.
- Whitefield, Stephen, and Geoffrey Evans. 1999. Political Culture Versus Rational Choice: Explaining Responses to Transition in the Czech Republic and Slovakia. *British Journal of Political Science* 29 (01):129-154.
- Whitehead, Laurence. 1994. Prospects for a 'Transition' from Authoritarian Rule in Mexico. In *The Politics of Economic Restructuring in Mexico: State-Society Relations and Regime Change in Mexico*, edited by M. L. Cook, K. Middlebrook and J. M. Horcasitas. La Jolla, CA: Center for US-Mexican Studies/University of California, San Diego.
- Wiles, P. J. D., and Stefan Markowski. 1971. Income Distribution under Communism and Capitalism. Some Facts about Poland, the UK, the USA and the USSR. Part II. *Soviet Studies* 22 (4):487-511.
- Witt, Daniel A., and Charles E. McLure. 1999. Tax Reform: Creating the Modern System. In *Fiscal Transition in Kazakhstan*. Manila: Asian Development Bank.
- World Bank. 1993. Azerbaijan: From Crisis to Sustained Growth. In *World Bank country study*. Washington, D.C.: World Bank.
- . 1993. *Kazakhstan : the transition to a market economy, World Bank country study*. Washington, D.C.: World Bank.
- . 1993. *Kyrgyzstan : the transition to a market economy, World Bank country study*. Washington, D.C.: World Bank.
- . 2005. Reforming the Public Sector Wage System. Washington, DC: Poverty Reduction and Economic Management Unit, The World Bank.
- . 2005. Republic of Kazakhstan: Getting Competitive, Staying Competitive: The Challenge of Managing Kazakhstan's Oil Boom Washington, DC: World Bank.
- . 2006. Turkmenistan Country Brief. Washington, DC: World Bank.
- . 2009. World Development Indicators: World Bank.
- Xinhua General News Service. 1990. Quake Hits Soviet Kirghizia Republic. *Xinhua General News Service*, December 3.
- Yates, Douglas A. 1996. *The rentier state in Africa : oil rent dependency and neocolonialism in the Republic of Gabon*. Trenton, NJ: Africa World Press.
- Yegorov, V. 1991. Kommunism Dreyfuyet na Yuge? Turkmenia (Communism Drifting South? Turkmenia - in Russian). *Komsomolskaya Pravda*, August 28, p. 1.
- Zardykhan, Zharmukhamed. 2004. Russians in Kazakhstan and demographic change: imperial legacy and the Kazakh way of nation building. *Asian Ethnicity* 5 (1):61 - 79.
- Zhukov, Igor. 1991. Ya Ne Slyshal, Chtoby Zdes' Atakovali KPSS (I Have Not Heard the CPSU Attacked Here - in Russian). *Nezavisimaya Gazeta*, June 18, p. 3.
- Zygar, Mikhail. 2005. Czar Truby (A Pipe's Czar - in Russian). *Коммерсант-Власть (Kommersant-Vlast)*, 5 September.